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LIFE AGENTS INSTRUCTION BOOK.

THE INSURANCE MONITOR
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AN

INSTRUCTION BOOK

FOR

LIFE INSURANCE AGENTS,

CANVASSERS AND SOLICITORS.

By N. WILLEY, ACTUARY.



C. C. HINE,

OFFICES OF THE INSURANCE MONITOR AND THE INSURANCE LAW JOURNAL,
176 BROADWAY, NEW YORK.

1874

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INTRODUCTION.

THIS manual is prepared for the purpose of educating life insurance agents to a higher appreciation of their duties and responsibilities, and to give them some practical information which will enable them not only to be more successful in obtaining new business, but also in winning the respect and confidence of the public. The duties and responsibilities of agents have hitherto been almost wholly confined to the task of getting new business. Too many have gone into the field with no other motive or aim than to reap a harvest of first commissions, without caring whether the best interests of policy-holders were consulted ; too many officers of life companies have made the number and amount of new applications the only criterion of excellence in an agent ; too many applications have been written in a careless or perhaps designedly incorrect manner ; and when a policy based upon such representations has become a claim, the payment has often been resisted on account of the ignorance or irregularity of the agent. In these instances the officers of companies have been equally responsible ; they have acted as if new applications, like a mantle of charity, covered a multitude of sins. But the loss of insurance during the past few years equal to seventy or eighty per cent. of the new business, in lapses, surrenders, and not-taken policies, ought to suggest the importance of reform. When it takes place, honor and truthfulness will be the first requisites of a solicitor.

Most agents need some practical hints about their business to enable them to succeed. Life insurance has become a science which few thoroughly understand, but all should be tolerably familiar with its leading principles. It appears to be a practical absurdity for a man to commence soliciting, knowing nothing of the different plans of insurance, the effect of different premium rates, or of the relative advantages of the peculiar features of the different companies ; or to attempt to build up a business where the details and minutiae are all to be learned. It is a waste of time and patience for an agent to persuade people to appreciate the benefits of life insurance when its principal advan-

tages and characteristics are unknown to him, and it is still more difficult to compete with other agents who have made this subject a special study. The young attorney has spent months, and perhaps years, in learning the routine of a lawyer's office, in attending courts and gaining a practical knowledge of his profession ; the young doctor has spent his time in hospitals, dissecting-rooms, and in the office of a practicing physician till he has obtained the knowledge and experience which will enable him to succeed. In every kind of business its general principles and practical operation must be learned before one can hope to meet with success. Eventually it will be so regarded in life insurance. A class of men will be carefully trained to the business, and while they devote their lives to this calling, they will make themselves so familiar with the science that they can advocate it successfully without having recourse to deception or without fear of mistake.

The agent must first be educated in this manner in order to be properly appreciated and trusted by the public. An ignorant agent making preposterous statements about the infinite results of a series of finite premiums, and the working of particular plans, may succeed for a time, but his prosperity will be an ephemeral one. Ere long the policy-holders will find that they have been deceived, his expected success is not realized, and lapses, forfeitures and surrender values will be the results. But when life insurance is properly explained, and its truths are clearly unfolded, how beautiful the harmony of the mathematical principles involved ! how convincing the duty to insure ! how easy to see where the greatest advantage lies ! and how satisfactory to know that the agent consults the interests of the policy-holder as well as his own !

The principal requisite to success in any business is a general love for it. Unless an agent feels an enthusiasm in his work, unless he believes he is conferring a great advantage on the insured by his efforts, unless he goes forth in the anxious pride of one who means to win, then he has mistaken his calling. But he cannot be heartily in love with it till he *understands* it—till he is familiar with all the arguments which can be used for and against it, and until he is able to instruct those he wishes to convince. In soliciting, “knowledge is power,” and the agent who thoroughly knows what his duties are, and how to perform them acceptably, will be the most enthusiastic and the most successful.

CHAPTER I.

GENERAL IDEA OF LIFE INSURANCE.

Insurance a Criterion of Progress.

INSURANCE of all kinds is a natural result of modern civilization. It is based upon two well-known facts: that we are exposed to the occurrence of certain misfortunes, such as having our buildings burned, our ships lost by storms, and our lives destroyed; and secondly, that these misfortunes happen with considerable regularity in classes containing a large number of members. The insurance consists in the unfortunate members of these classes being recompensed for their losses by the contributions or premiums of others who are fortunate enough to escape a similar calamity. Hitherto mankind has not succeeded in preventing these occurrences. Fires will break out and reduce valuable buildings to ashes. Ships will be wrecked notwithstanding all discoveries in meteorology. People will die from accident and disease before they have fulfilled their allotted three score years and ten, in spite of all discoveries in medicine or hygiene. These things happen every day, and the only way to make good the losses which they entail is for a large number of people exposed to any kind of disaster to combine together, and for those who escape to join in paying a definite amount of the loss to those who suffer.

To discover the laws which govern the occurrence of these disasters, requires an amount of labor in collecting statistics, science in reducing them to nearly uniform principles, and public confidence in binding the policy-holders together, which is found only in highly civilized countries. The ancients knew nothing of insurance ; half civilized nations do not practice it ; they have not made sufficient intellectual advancement to enable them to collate the facts and master the principles necessary to reduce insurance to a scientific basis. Only the most enlightened nations insure to any great extent.

Insurance, then, may be regarded as a criterion of modern progress, and life insurance as an example of its highest development. No other kind of insurance is based upon such exact laws or requires such profound

mathematical principles for its complete investigation, and none other is so important to a community, so little understood, or so universally neglected.

Life Insurance based upon the Law of Average Human Mortality.

The law which lies at the basis of all computations in life insurance is, that, in a large class of individuals of a certain age, we can predict with considerable certainty how many will die within a definite period of time. We cannot tell whether any particular individual will live or die during any future period, but a large number of persons, taken at any given age, loses its members in such regular order that we are compelled to acknowledge that there is a law of human mortality to which the facts in every-day life conform to a remarkable degree. If a person puts 1,000 white beans in a bag, and then adds 100 black ones, and, after the bag is fairly shaken, a blindfolded man proceeds to draw them out one by one, it will be found that in drawing a limited number, the probability that he will draw a white bean is just ten times as great as that he will draw a black one. This is an illustration of the principle upon which all tables of mortality are based. Mr. Elizur Wright illustrates the contract of life insurance by calling it a bet—unfortunately, so far as nomenclature is concerned, because betting is intimately associated with gambling, whereas there is nothing essentially like gambling in insurance. A man aged 25 “bets” \$20 that he will die within a year, and he makes a still further bargain that he shall have the privilege of renewing this “bet” once a year during life. The company “bets” that the man will not die, and stakes \$1,000 on the result. The company has a table of mortality prepared, which shows how many will probably die out of a thousand for each successive year of age from 10 years to 95 or 100, and having converted this average annual risk into a uniform rate through life, and added a margin for expenses and contingencies, it is ready to bet \$1,000 against a premium of \$20 that he will not die. The policy-holder puts up his \$20 per annum, and the longer he lives the more likely he is to win. The company will lose the “bet” in the end; but if it obtains premiums and interest thereon enough in the meantime to recompense it for the sum insured, and losses paid on others of the same age, it is the gainer. The same principle holds good in fire insurance. A man “bets” a certain sum—say one per cent. or \$50—that

his house, valued at \$5,000, will be consumed, and the company "bets" \$5,000 that it will not. Now suppose that there are several thousand people making just such "bets." In so large a class, a company can easily find out what is the average ratio of loss, and how high the premium will have to be made to bear it and pay all working expenses.

Life Insurance a Plain Business Transaction.

When we reduce life insurance to its elementary principles, we find that it is a plain business matter. The idea that it is a benevolent, charitable or sacred institution, the protector of the widow and orphan, is an error which has been cherished altogether too long. There is no more benevolence or charity in it than there is in a savings bank which pays its depositors when they demand their deposits. Nor is there any more benevolence or charity in a man's insuring his life for the benefit of his family than there is in his providing them with food and raiment. It is his duty to provide for them as well as he knows how, and if he is convinced that life insurance is one of the means whereby this can be accomplished, then he is unfaithful to his trust if he does not take advantage of it. Nor is a life insurance company a benevolent or charitable corporation because it pays its losses promptly. Paying losses is a part of the contract of insurance, as paying for goods purchased is a part of the duties of mercantile life. It may be considered a heresy to expose a fallacy on which so many solicitors have depended for their arguments, and on which so much has been written in favor of life insurance ; but this is the simple truth, and the sooner it is generally understood the better. Life insurance has depended too much for its success upon sympathy, misrepresentation and mystery, which is the cause of so much dissatisfaction and disappointment among policy-holders.

Since life insurance companies are purely business organizations, they must be conducted on sound business principles. In order to live and prosper, they should protect themselves, or rather their policy-holders, against fraudulent claims, extravagance, and everything which hinders their successful operation. A company which does not is unworthy of confidence and patronage, and so when the public or some ignorant editor blames a life insurance company for contesting a claim which is evidently fraudulent, or for refusing to defraud the remaining policy-holders by paying too lib-

eral surrender values, he is discussing matters which he does not understand. The company is designed to benefit those policies which remain in force in preference to those which drop out, and honest policy-holders instead of derelicts.

Life Insurance not a Charity, but a Duty.

But although life insurance is strictly a business matter on the part of the company, it has a grand and noble mission to perform. On the part of the policy-holder it appeals to the noblest and tenderest feelings of his nature. The care of those dependent upon him; the protection of offspring ; the careful preparation for the support of loved ones, years after the grave shall have covered the strong arm which labors and the manly heart which sympathizes with them—this is the great mission of life insurance, and to this end should all its energies be directed. It is not a legitimate subject of speculation. If men insure their lives to make money on the investment, it is because they know that they are short-lived, or because they have erroneous views on the subject of profits. If they know that they are short-lived, and get into a company by making deceptive representations, they intend to defraud the remaining policy-holders. If they insure as an investment, and live to a good old age, they obtain a moderate interest on their money, less the tabular cost of insurance.

But passing over these baser motives, there is much real solid good done by insurance. It tends to lengthen a man's life by giving him that assurance in the hour of sickness that his family is provided for in the event of his death ; it inculcates habits of economy and self-denial by compelling him to set aside a part of his income to purchase a future benefit ; it discourages intemperance as one of the means by which a policy may be lost, and by placing the policy-holder under bonds not to die by intoxication ; and finally, its whole tendency is to furnish him with the noblest impulses of action, which any mere business or selfish motive can bestow.

There is no charity, no benevolence in this. None of the saintly virtues which some writers love to proclaim in advocating life insurance ; but there is an honest performance of duty ; there is a preparation for death as far as worldly matters are concerned, and there is the exercise of that forethought which distinguishes a civilized man from a savage, or prudence from recklessness. The man who is insured in a sound and pros-

perous company has the feeling of security for the welfare of his family in case of sudden death, and this may be a boon whose value cannot be estimated in dollars and cents.

There is many a man who would hardly rest a single night if his factory, warehouse or store were not insured to its full value ; but who will recklessly expose himself to death while his affairs are in a chaotic condition, with no certain provision for his family—no insurance on his life. Men do not refuse to pay money for other objects of a similar nature. We live in a civilized country where there are laws, civil officers, courts and policemen. We can sleep, knowing that there are watchmen to protect our property from being stolen or destroyed. We can travel by day and night, knowing that the arm of the law will protect us, and for these blessings we cheerfully pay taxes ; but in all this there is no insurance, only an imperfect protection. We insure our buildings against fire, when not one building in a hundred burns, and we pay our fire insurance premiums promptly and cheerfully; and sometimes, after a great deal of argument and solicitation, and too often with an idea that it is a good speculation, we insure our lives. Let us hope that hereafter agents will divest life insurance of all its clap-trap and sentimentalism, and look at it as a plain, straightforward bargain on the part of the company, and a simple duty of the policy-holder.

Money Value of Human Life.

Some people have the idea that life insurance is a speculation on a man's life, and is wrong, inasmuch as human life is too solemn and serious a thing to be made the subject of any such contract. It is just here that the whole thing is greatly misunderstood. A man takes a life insurance policy, so-called, of \$10,000. It is not his *life* which is insured against death, so much as it is the *value of his services*; he insures that quality in him which is necessary to support his family. That is his *income-producing power*, or capacity to earn money. Men who are physically disabled, and who have no ability to support themselves and others, such as the insane, the badly crippled, or those in premature dotage, cannot get insured if the company is aware of their condition, even if their health is good, because there is no money value to their lives. But if a healthy man gets killed by a railroad accident, his friends bring an action against the company and get damages, say \$5,000.

This is the sum which they claim is the money value of that man's future services to his family.

So in life insurance ; a man insures his money value as a producer, or as much of it as he can afford. This is a kind of property which the law protects.

If a man starts a malicious rumor or report against a merchant or doctor, which injures his business and diminishes his income, the law gives a remedy and the slandered man brings a suit for damages against the offender, because a man's income-producing power is just as much his property as his bank account. Suppose a man gets a salary of \$2,000 a year ; the present value of it at six per cent. discount—if he were sure of living and earning it for twenty years—is \$23,000. This is his income-producing value as a man, and this is what he insures when he takes a life policy. There is no more speculation in this than there is in his insuring his house or factory, and his duty is just as plain in one case as in the other. If a man has a machine which will earn \$2,000 a year for twenty years, and if that machine should be destroyed by fire, and he could not get another under any circumstances, he would instantly have it protected by a fire policy to its full value. We have taken this view of life insurance because we believe that when it is stripped of all its mystery and false claims upon the public, and is presented as a simple business matter, obligatory upon all men to the extent of the risk which they run, the money value of their services, and the amount of annual income they can spare for this purpose, then the objections against life insurance will be confined mainly to the stability of the companies.

Magnitude of the Business.

Hardly any business in the United States has increased so rapidly during the last ten years as life insurance. It has taken so strong a hold upon the public confidence, and has become so firmly established, that it is now recognized as one of the leading subjects of financial investigation. Our prominent companies have been in operation twenty or thirty years, and have acquired a solid reputation for stability and honesty. Many of them are as sound and safe as the best banks in the United States, and their assets are reckoned at from one to sixty millions. There are now more than a hundred life insurance companies in active operation in this country. The returns of sixty-four of them, comprising all those doing business in New York, and one

or two more, and as given below, show their condition and standing December 31st, 1871, and in comparison we give the condition of all the companies doing business in New York just ten years previous :

	Condition Dec. 31, 1861.	Condition Dec. 31, 1871.
Companies,.....	17	64
Policies in force,.....	57,202	781,618
Insurance in force,.....	\$164,256,052	\$2,081,942,007
Gross Assets,.....	26,670,397	307,087,917
Income, 1871,.....	4,913,390	113,320,838
Payments of Losses and Endowments,	1,535,791	21,475,362
Dividends to Policy-holders,.....		21,936,991

From this statement we see that the amount of business has become more than ten times as great as it was ten years ago. Since it has acquired such gigantic proportions it is impossible either to ignore it or to stay its onward progress.

Such a business could never have been built up unless the managers of these companies had the implicit confidence of the people, and nothing can destroy it but a general want of public confidence, caused by a gross mismanagement.

Life Insurance rests on Solid Foundations.

The public confidence upon which the whole business of life insurance depends, rests upon four solid foundations, every one of which is yearly meeting with the most decisive tests :

The first foundation is capital. Life insurance has money for its basis. The assets of our leading life insurance companies range from five to sixty millions of dollars ; nearly all this is invested in interest-bearing securities. These assets are safely invested. No savings bank in the country takes more pains or exercises greater care in the investment offunds than our life insurance companies. Many of these companies have never lost a dollar from poor investments, although many millions have been entrusted to their care. During the year 1871 half a dozen savings banks failed in the city of New York, occasioning a loss to the depositors of upwards of \$500,000, while the life companies stand firmer than ever.

The second foundation is the **LEGAL RESTRICTION** which is thrown around life insurance companies. No other corporation is so jealously watched and guarded as this. Savings banks, banks of issue, and trust companies, can do more as they please with their deposits or fund ; but the life insurance companies are

held to the strict letter of the law and watched with a jealous eye. In every State in the Union where life insurance companies are organized, and where there is an Insurance Department, they are prohibited from investing their funds in any speculative or doubtful security.* They must keep up the required standard of reserve as prescribed by law. All new companies must have a capital stock of at least \$100,000, and usually this must be deposited with a State official to secure the prompt payment of all just claims.

The third is PUBLICITY. The annual sworn statement of the condition and standing, including the business done, assets, liabilities, receipts, expenditures, and losses of every company doing business in a State where there is an Insurance Department, must be examined by a competent State official, and published in an official manner, and every agent and citizen has an opportunity to read these reports understandingly and critically. Contrast this trait of our companies with the condition of life companies in England, where so many failures have occurred in life insurance, and where they are still occurring. There secrecy of administration is the rule ; the internal condition and working of every company is carefully hid from the public eye, and the policy-holder or agent knows nothing but the "glittering generalities" of assets and policies in force which the directors and officers please to publish, till suddenly, like a thunderbolt in a clear sky, a crash like the failure of the Albert or the European sends consternation and dismay among thousands of homes.

The fourth is PUBLIC CONFIDENCE. There is a growing conviction among men that it is their duty to insure their lives in sound companies. Life insurance is not now regarded as a rich man's luxury, but it is the poor man's shield. The constantly recurring cases of men dying and leaving policies of insurance to be paid to their families a short time after their death, is having its effect on the minds of thousands who never would have had any confidence in it. Well-known examples and every-day illustrations are the most convincing of all arguments. Our great companies, which have weathered through a score of years without disappointing their policy-holders, are examples of this kind of confidence. No one questions their soundness or ability to pay their losses as they mature, and most of the younger companies are following their footsteps and reaping the same kind of reward. Public confidence is the vital health of a life insurance company ; without

it is paralyzed ; with it it can defy commercial crises, and when the money market is stringent, it can lend a helping hand to those policy-holders who are pressed by temporary embarrassment. But how is it with a bank of issue in a commercial crisis ? Will it ease the money market and accommodate depositors by making loans any more readily ? Not at all. Every year the public confidence in life insurance companies is growing stronger. They may change their plans and rates of insurance in order to keep up with new discoveries in the science, but the time has come when they are firmly established in the confidence of the people—the firmest foundation of all.



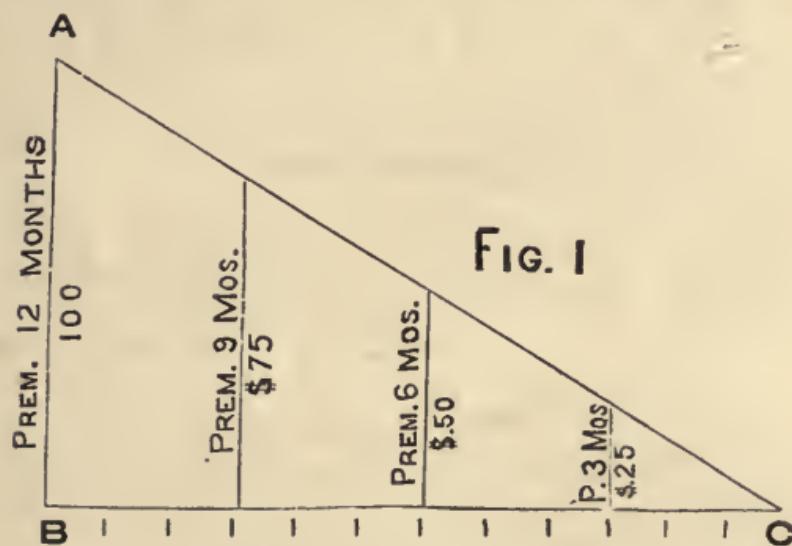
CHAPTER II.

LIFE INSURANCE EXPLAINED BY DIAGRAMS.

In this chapter we propose to give a few plain and simple illustrations of the science of life insurance, and the practical advantages and peculiarities of different kinds of policies.

Insurance for One Year.

The fundamental idea of an insurance premium may be illustrated by a triangle: the perpendicular line **AB** representing the premium just paid, and the horizontal one, **AC**, the year, divided into twelve equal spaces denoting months in which the insurance is in force.



During every month and day after the first premium is paid, the company agrees to pay the amount expressed in the policy should a total loss occur. During this time it is earning the premium by carrying the risk, and at the end of the year, when the whole is earned, the entire premium is the property of the company. If no loss occurs on the policy during the first three months, the company has earned one quarter of the premium, and the unearned part of the premium may be separated by the second perpendicular line from the left, which is only three quarters as long as the first line, **AB**. If the premium is \$100 a year, the cost of carrying the risk is between 27 and 28 cents a day. At the end of

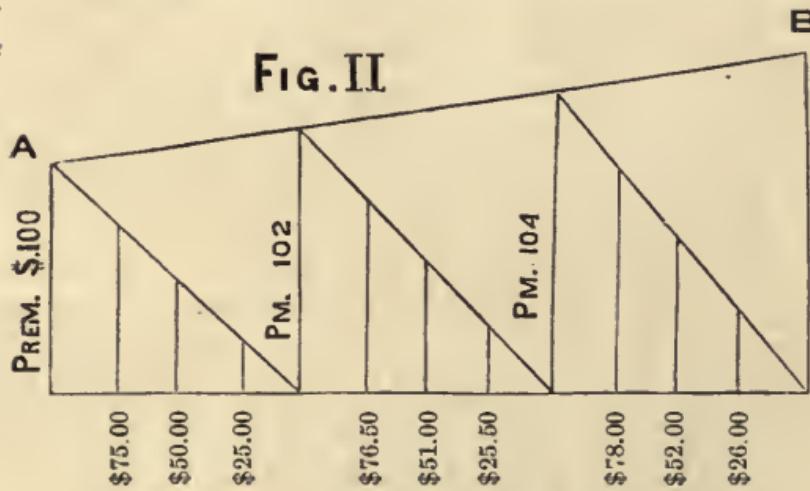
three months the company has earned \$25, and the unearned part of the premium is \$75, as shown by the second perpendicular line. At the end of six months the company has earned \$50, and at the end of the year the whole \$100, and the unearned part of the premium is reduced to nothing. The company has now fulfilled its contract.

In fire insurance the company sometimes cancels the risk and returns the unearned premium. At the end of three months the balance due the policy-holder would be \$75, at the end of six months \$50, and so on. This unearned premium, whether in fire, life, marine or accident insurance, is the reserve on liability, and is what the company, in equity, owes to the policy-holder at any given time before a loss takes place on the policy.

The policy-holder, on paying his premium, hires the company to stand ready to pay the amount insured should a loss take place during the period of insurance; and the shorter the unexpired time the policy has to run, the less chance there is of its being called upon to pay it. This is the fundamental idea of all kinds of insurance. Let us see how it is modified in a life policy :

Increasing Risks.

Here the danger of dying is increased each successive year after the assured has arrived at early manhood.



At any age, if the policy should be issued for only one year, its conditions would be governed by the foregoing principles ; but if, having arrived at an age when the risk gradually increases, he should take out a new policy from year to year, the premiums on the same amount would have to be annually increased to correspond with

the risk. If the premium is \$100 this year it may be \$102 next, and then the unearned premium at the end of six months would be \$51, and \$25.50 at the end of nine months. If the premium the next year is \$104, the unearned premium at the end of six months is \$52, and \$25 at the end of nine months.

Since a larger premium must be paid each successive year to provide for increased risk, the corresponding perpendicular lines gradually increase in length toward the right.

Term Insurance.

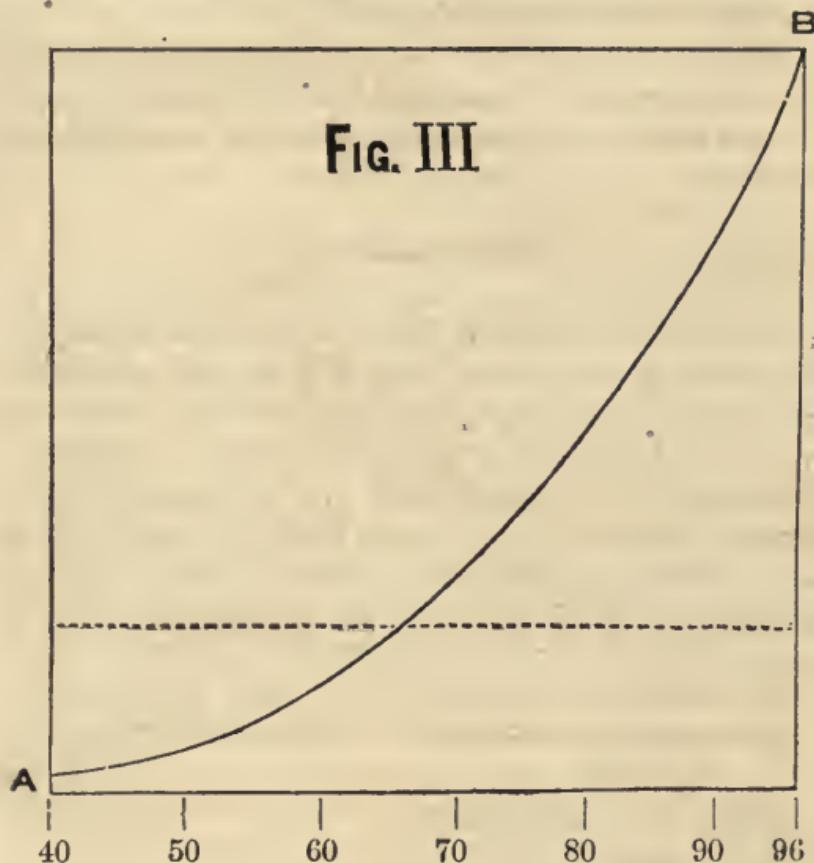
The method of finding the uniform annual premium for a term policy of three years is illustrated as follows: Suppose we have a class 10,000 persons of the same age, and that during one year 100 die ; there are 9,100 remaining. During the second year 101 die and 9,799 remain. During the third year 102 die. The first year there would be 10,000 premiums paid, the second 9,900, the third 9,799. Total, 29,699, to 303 deaths. If each person were insured for \$10,000, the total loss would be \$3,030,000, and the amount of each premium required would be $\$3,030,000 \div 29,699 = \102 nearly. The policy-holder pays the annual premium of \$102, but the cost of insuring during the first year according to the diagram is only \$100 ; hence there is a balance or reserve at the end of the first year of \$2, and is the unearned part of the first premium. The second year the insured pays the annual premium of \$102, which, added to the reserve of \$2, makes \$104 ; but the company spends only \$102, leaving again \$2 reserve. The third year the annual premium of \$102 is added to the reserve, making \$104 ; but this year the policy-holder must pay \$104 to meet the increased death-rates, and at the end of the year there is an exact balance.

Whole-Life Insurance.

Should the insured allow his policy to lapse at the end of the first or second year he would lose the reserve of \$2. Now a whole-life policy with equal annual payments is merely a term policy ending at the age of 96, according to the American Experience Table of Mortality, and if the insured should continue to pay an increasing premium each year on the same amount of insurance, the line **AB** in the last diagram would become the curved line **AB** in the following figure.

The increase of risk is not uniform, but annually in-

creases as the insurance grows older, so that while at age 41 the risk is almost one per cent. of the amount insured, at 70 it is about ten per cent., and at 80 about fourteen per cent. In the term insurance example, given above, we saw that it was necessary to charge a



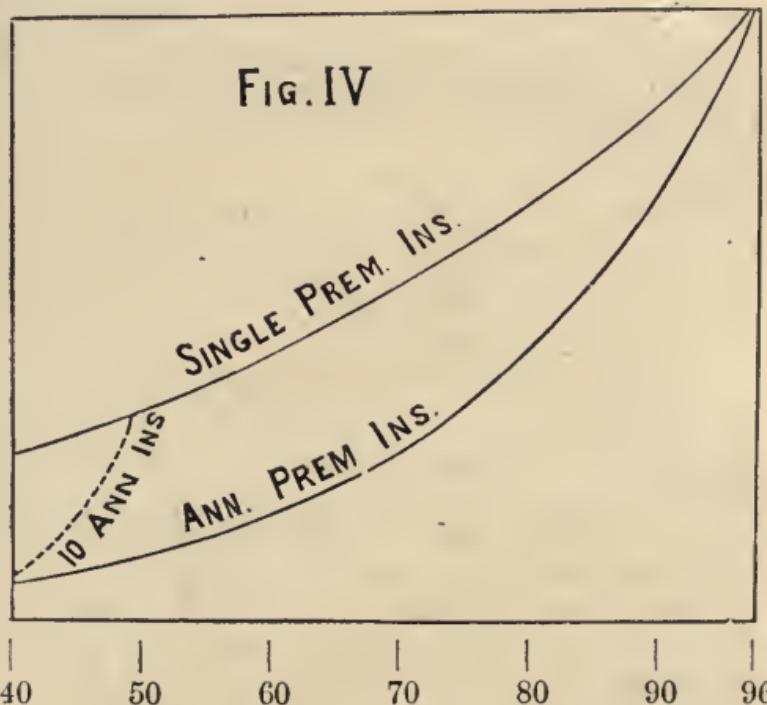
higher premium than was required at first, to provide for carrying the risk in the older ages, and this rule must apply with still greater force to a whole-life policy with equal annual payments, as the above figures will show—the dotted line denoting the equal annual payments as compared with the increasing payments represented by the curved line.* In whole-life insurance this larger premium is required to provide for a fund or reserve, which, with the annual interest thereon, will meet the ultimate payment of the risk when the insured reaches the age of 96, or if he dies before, it will be added to the contributions of other policy-holders to pay his own claim.

In these explanations we have not thought it necessary to show the effect of interest or discount in computing premiums or reserves. The only effect of this element is to make them considerably smaller, and for the sake of brevity and simplicity we omit it.

* Owing to the limited space, the proportion of these figures is necessarily somewhat inaccurate, but it is exact enough for purposes of illustration.

Single Payment Life.

In a single payment life policy the premium must be large enough so that the compound interest on it will enable it to make its due share of contributions to death losses of similar policy-holders of the same age, and still add enough to the original premium so that at age 96 the premium will amount to the policy. Take the case of a man 40 years of age : his single premium for \$1,000 (American Experience $4\frac{1}{2}$ per cent.) is \$330.95. Adding interest at $4\frac{1}{2}$ per cent., \$14.89, we have \$345.84 ; deducting contributions to other death claims, \$6.47, there remains \$339.47—the single premium for age 41. The practical disadvantage of this kind of policy is that a comparatively small amount of insurance is secured by paying a large sum of money ; for the policy-holder pays the present value of all the future death-claims in advance, and this is just equal to the present value of the future net annual premiums. To show how unprofitable, compared with other methods, single premium insurance is, the following diagram is given.



All the insurance obtained on a single premium life policy is represented by the space above the upper curved line, and the amount of the annual premium by the space above the lower curved line. The expensiveness of a single premium life policy may be still further illustrated by the fact that \$330.95 at compound interest $4\frac{1}{2}$ per cent., in 25 years will amount to \$1,000, and

at 7 per cent. will equal this in 16 years. At age 40 the expectation of life is about 28 years, or at age 68 ; and \$330.95 at compound interest, 4½ per cent., amounts at age 68 to \$1,135.06, and at 7 per cent. to \$2,100.42. Unless the applicant is in very bad health, this is not a profitable kind of policy for him. Reversionary insurances from dividends are small policies of this class.

Limited-Payment Life.

A life policy with a limited number of premiums is better than a single-premium one, but unless the premiums cease at 70 or 75 it has little advantage over a whole-life equal annual premium policy. At the age when the premiums cease to be paid, it becomes a paid-up policy, and its reserve is equal to the single premium. Thus a ten-annual life policy issued at age 30 requires an annual premium just about one tenth of the single premium at age 40, for the premium must be large enough to amount to this single premium in ten years. The disadvantage of the ten-annual life policy is that the premiums are too large in the younger years for profit, and the less the number of premiums the more the policy resembles a single-premium one, and the greater the number the more it approaches to ordinary life insurance. But there can be little or no disadvantage so far as the amount of insurance obtained is concerned, in taking a limited payment life policy, the premiums to cease at age 70 or 75.

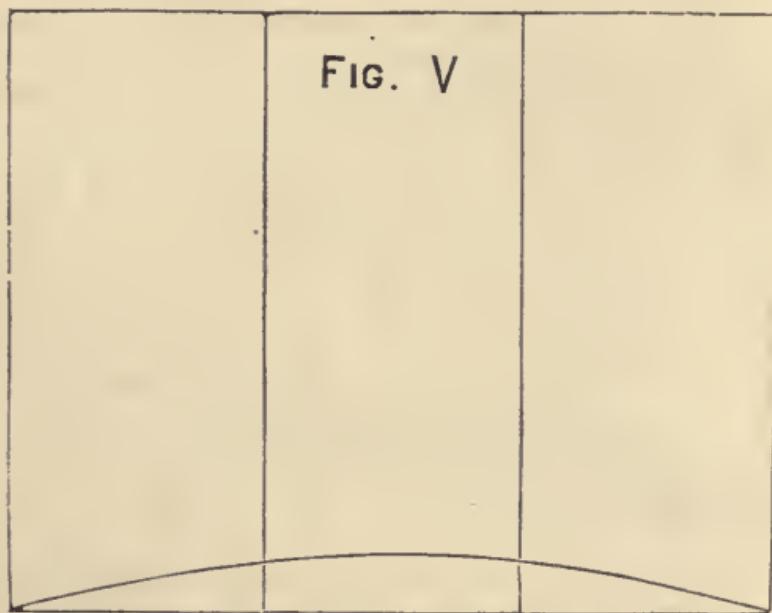
The ten-annual life premium is represented by the short curved line near the left of the last diagram. At age 40 it is merged into the single-premium line.

Amount at Risk.

In the foregoing example of term insurance (Fig. II.) we saw that the reserve at the end of the first and second year was \$2, and at the end of the third year nothing. If the sum insured was \$10,000, at the end of the first and second years the policy-holder would have a credit of \$2, and the amount at risk which the company actually carried during these years was \$9,998. As we regard the reserve at the end of the year only for the sake of simplicity, the reserve on a three-year term insurance may be illustrated by the space below the curved line, (Fig. V.,) and the annual insurance done by the company by the space above it within the figure. The insurance done by the company is the benefit which the insured receives from his premiums;

the rest is the unearned premiums ; and as far as any benefit is conferred upon the insured at the end of each year, this amount might as well be in his pocket ; but because he chooses to pay a level instead of an increasing premium, this amount must be reserved by the company. It is evident that the smaller the sum, the

FIG. V



greater is the immediate advantage the policy-holder obtains for his money ; that is, the less insurance he does for himself, the more the company does for him.

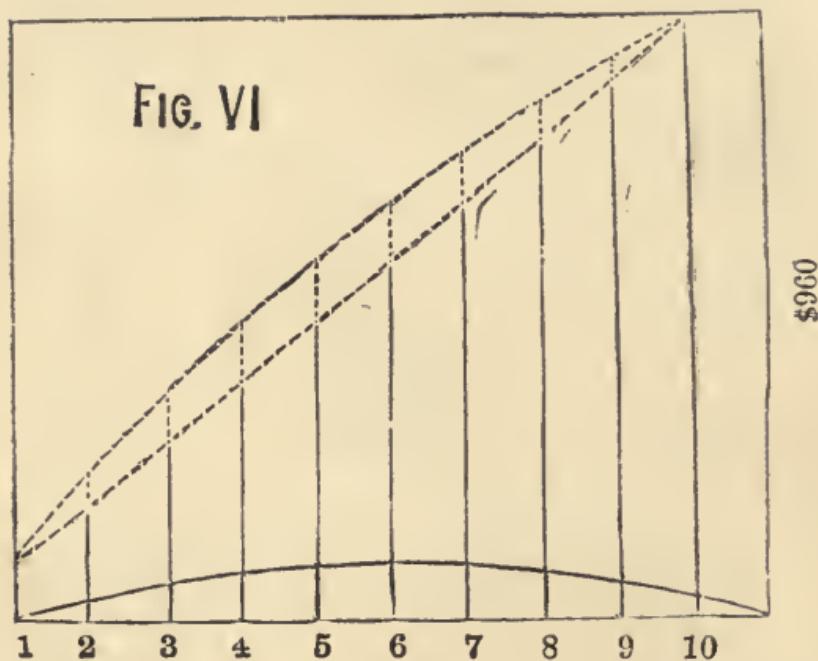
Simple Endowment Insurance.

Endowment insurance policies are illustrated as follows : If a man should deposit \$96 per annum in a savings bank without interest for ten years, on the conditions that if he were alive at the end of that time he should be entitled to \$1,000, and also if he died in the meantime the company would retain the whole amount paid, this would be a simple endowment (leaving out the item of interest,) and may be represented by the next diagram.

The reserve at the beginning of each year is shown by the first ten perpendicular lines, and the last denotes the sum payable in ten years. In this illustration there is no insurance done by the company. The policy-holder pays \$960 in ten years, and if living at that time is entitled to \$1,000 ; the balance, \$40, is the amount the company pays to the policy-holder for insuring himself in favor of it ; that is, the policy-holder deposits his money with the company and carries his own entire risk of losing it for \$40. In this case the business of life insurance is entirely reversed.

Endowment Insurance.

But suppose the insured wishes to "hedge" his contract, and takes out a ten-year term insurance policy in addition, entitling him to the full amount of \$1,000

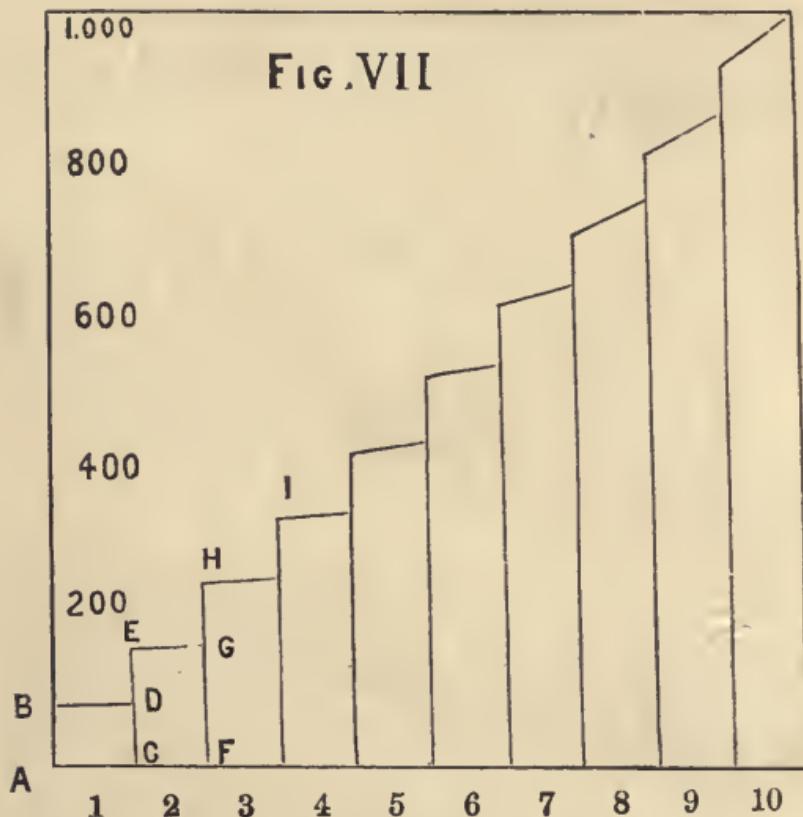


should he die in the meantime, the reserve on this policy would be represented by the curved line at the bottom of the diagram. But a large part of the insurance he would get under a single-term policy is already earned by the money he has deposited with the company. Adding these two reserves together, we have the upper dotted curved line, and adding the net premiums on the two policies we have the elongated perpendicular lines. These two policies, the term and simple endowment combined, constitute an endowment policy of insurance.

It is plain that this kind of policy is not the most profitable one for the policy-holder for the following reasons : He gets a small amount of insurance for the money paid, a large part of his premiums is locked up in his own deposits, and he has to pay more than his share of the expenses of the company in the ratio of the benefits received.

The following diagram represents the practical working of a ten-year endowment policy, age 30. The first year's reserve is shown by the quadrilateral over the figure 1, the second by a larger one over 2, and so on. If this is a policy of \$1,000, the average amount of insurance carried by the company (Am. Ex. 4½ per cent. interest) is only \$562 per annum—a little more than

one half the amount of the policy. The line **A B** is the net premium or reserve at the beginning of the first year, **C D** is the reserve at the end of the first year. The net premium **D E** being added, we have **C E**, the reserve at the beginning of the second year, and **G F** is the reserve at the end of the year, etc.



After the first year the lines **E G**, **H I**, etc., are not parallel to the bottom line, but incline upward, which shows that the interest on the reserves more than equal the cost of carrying the risk ; that is, all the actual insurance done by the company is paid for not by the annual premiums but by the interest on the money deposited to pay the final claim.

But a long term endowment nearly resembles a whole life policy, (which is only an endowment or term insurance policy payable, according to the American Experience Tables, at 96.) If there is anything to choose between a whole life policy and an endowment policy maturing at 70 or 75, the advantage is rather in favor of the latter. The endowment premium is somewhat larger, to offset the contingency of having to pay premiums after this age, or to pay the claim at this period.

Practical Suggestions.

Every one solicited to insure his life should ask himself the following questions : How much insurance do

I get for the premiums paid, and how much do I insure myself? Will the advantages resulting from paying large premiums be sufficient to justify the increased expense? Is it worth while for me while young or in middle life to make a contract for insuring my life between the ages 70 or 75 and 96? Since the working expenses are now assessed upon the gross premiums paid, will the advantages to be derived from these expensive methods be sufficient to justify the payment of a high premium rate?



CHAPTER III.

THE APPLICATION AND POLICY.

The Application.

THE application is a proposal, in which the party seeking insurance asks for a policy upon his life. As it is the basis of the contract of insurance between him and the company, the interests of both require that all the questions in it should be truthfully and explicitly answered. In it he gives a full description of himself sufficient for identification. His name should be written in full, without any abbreviations or initials, and the same rule should be observed with regard to the names of those for whose benefit the policy is made. The amount and kind of insurance should be explicitly stated, and also, in mutual companies, the method in which the surplus is to be disposed of when declared. The age of the party should be exactly ascertained, and the correct date of birth should be given in all cases where it can be procured, since the premium is always taken for the age at the nearest birthday. If required, the ages of his parents, grandparents, brothers and sisters, and the ages at which any of them died, should also be given with all possible accuracy, and also the diseases of which any of them may have died. The agent should also notice the present condition of his health, and all circumstances connected with his family history which it may be important for the company to know. If any of his relations have died insane or by consumption, it is important that the company should know it, however unfavorable the facts may be to the prospect of his being accepted.

The occupation should be correctly and definitely stated. It is not sufficient to say that a man is a laborer ; he may be employed in a powder-mill or nitro-glycerine factory. The agent should be careful to explain that the application is a part of the contract of insurance, and that the policy is binding only in case the questions in the application are answered truthfully.

The application should be duly signed and witnessed according to the printed instructions of the company,

and great care should be taken to have this part of it exactly correct. If a witness is required, a suitable one should be procured. When the party insures for the benefit of any other person than his wife or child, the agent should see that this person has an insurable interest,* otherwise the policy will be null and void.

When the application is finished, duly signed and witnessed, the medical examiner makes a careful examination of the applicant's physique, and answers in writing a list of questions on another page of the application, and then he returns it to the agent or sends it direct to the company. As the application is usually the only means whereby the company can judge whether the risk is a good one or not, both the agent and medical examiner should have all the questions answered definitely and completely. In an application there are usually some forty or fifty different questions to be answered, and upward of two hundred and fifty items to be noted. Every one of these should be carefully read by the agent, the applicant, and the medical examiner. It will not suffice to pass any of these over in neglect, because in a list of ten thousand applications all of these items will in some way or other be deemed worthy of special consideration, and the officers of a company will not fail to remark any negligence on the part of an agent in filling out the application. It is also very disagreeable for an agent, just at the time he expects a policy from the company, to receive a returned application, and a note requesting some question answered more fully or some blank filled up. It gets the agent into bad repute, it puts the company to a great deal of additional labor, and it disgusts the applicant to be called on a second time for information.

Some companies require the family physician to answer additional questions respecting the habits and health of the applicant, and if the amount to be insured is very large, two separate examinations are required. Questions are sometimes given to be answered by an "intimate friend" of the applicant, but in many cases they are simply added to enable the agent to get an introduction to other parties who may need insurance, by showing them the application and obtaining their indorsement on it.

*That is, will the party in whose benefit the policy is made, suffer a pecuniary loss by the death of the insured—the loss being equal to or in some way commensurate with the amount of the policy? For further explanation of "insurable interest," see the last chapter.

The Policy.

The application and policy form the entire contract of insurance. The policy commences by making the representations in the application its basis, and the payment of the first premium to the company or to an authorized agent is a binding condition that the policy shall be in force. Then follows the declaration that the company insures the life of the applicant upon a certain plan and upon a given premium, and this policy is to remain in force provided he does not unnecessarily expose his life by certain acts which will render the policy null and void. These restrictions usually relate to travel and residence in foreign countries, or unhealthy localities, or engaging in extra-hazardous occupations whereby life is apt to be shortened; or if the insured should die by suicide, the hand of justice, from gross intemperance, or a duel, then the sum insured in the policy shall not be paid, and all the premiums shall be forfeited to the company. Hardly any two companies agree upon all of these conditions and premises. In some companies, which profess to be "extremely liberal," and thereby hold out additional inducements to parties to insure, these restrictions are almost wholly removed, but others more "conservative" adhere to the ancient landmarks.

When the policy is delivered and the premium paid, then it is binding upon the company. If the policy is delivered before the first premium is paid, and the insured should die in the meantime, the courts would probably hold the company liable for the sum insured, even if the special instructions to the agent were that no such delivery should be made. The act of the agent in delivering the policy would probably be considered as a waiver of the right to demand the first premium in advance, leaving it optional with the policy-holder when it should be paid. A proper appreciation of this fact will make an agent careful how he trifles with the interests of his company by the delivery of a policy without the actual receipt of the cash.

Different Kinds of Policies.

WHOLE LIFE.--This is the oldest, the simplest, the most common, and in many respects the best kind of policy. One of its principal advantages is that it gives the greatest amount of whole life insurance for the least premium. It enables a man with a given sum of money

to make a larger provision for his family at death, and it carries out the idea of life insurance more completely than any other kind of policy. But because there is a larger ratio of the premiums spent for the payment of losses and running expenses than in any other kind except term insurance, the surrender values and paid-up policies on this class must necessarily be small. Another objection to it is that in extreme old age, when the insurance is no longer needed to protect one's family in case of death, the annual premium is a tax upon the policy-holder. The conditions of the policy are that the premiums shall be paid till death, and if this event does not occur till extreme old age, then the insured is paying for advantages which he has already received, in obedience to one fundamental law of all insurance, that the losses must be paid by the more fortunate who escape, and in life insurance the survivors must pay the losses of those who die early.

LIMITED PAYMENT LIFE.—A modification of the whole life plan is the limited payment life, or a policy payable at death, but the premiums payable only during a limited number of years—usually five, ten, fifteen, or other similar period. This has some advantages not found in the whole life plan. It enables a policy-holder to know definitely when his premiums will cease, and in taking a policy he can choose one in which the premiums will cease when he has arrived at an age when he has no longer any need for insurance, and when the continued payment of premiums would only be a burden from which he would reap no immediate benefit.

A life policy with the premiums ceasing at the age sixty-five or seventy probably combines about as many advantages as any policy which can be named. The number of premiums is certain, and there is no anxiety lest the policy may become a tax upon the extreme old age of the insured. Whatever is paid on a policy after the age of seventy is usually regarded merely as a penalty for prolonged life ; it is contributing to the losses of those who die younger without receiving any other advantage than the prospect of its ultimate payment ; and unless men are perfectly certain that they will be able to afford it, they should so insure that this tax upon prolonged life may be avoided. It is usually a privilege in this class of policies that the insured can obtain a paid-up policy for a definite amount, dependent upon the number of premiums paid. In whole-life policies this is not usually the case. As the

premiums in this class are limited in number, they are necessarily somewhat larger than those on the whole-life plan.

TERM, OR TEMPORARY POLICIES.—This plan provides for the insurance of a life during a limited number of years, and if the insured survives this period the policy expires by limitation, on the same principle that a fire insurance policy expires on a certain day and hour, unless renewed. It is obvious that the annual premiums must be less in this than in any other kind, because there is no insurance during an indefinite period of old age to provide for. It furnishes the largest amount of insurance for the least amount of money, during the limited period in which the policy is in force. In a life policy the insured will win at last if he keeps on betting, or pays his premiums long enough ; but in term insurance, unless he dies within a limited time, there is no payment of the policy. If he desires to keep insured after the policy has expired, he must submit to a new medical examination and pay a higher premium.

In the Massachusetts Reports for 1865 we find the following testimony of the Hon. Elizur Wright in favor of this class of policies terminating at an advanced age :

"The public still seems unaware of the advantages of temporary insurance—especially of terms sufficiently extended to cover the whole of the active or productive period of life. It seems to be very generally believed that if a term policy should be outlived, all the premiums paid for it would be thrown away. This seems to be the reasoning of people who do not regard their fire insurance premiums thrown away when their houses have not been burned. A man aged thirty ought to be able to get a policy of \$1,000 for a term of forty years by paying at least \$4 per annum less than for his whole life ; that is, the company could well afford to make that reduction in consideration of the limit. Four dollars per annum, accumulated at six per cent. for forty years, will amount to \$619. But if he pays it to the life insurance company in order to have the policy extend over the whole life, and he is in sound health at the end of forty years, the company will not give him \$619 as the surrender value of his policy, its value at four per cent. being only \$594.38. But suppose he has taken the long term policy, investing year by year the \$4 difference of premium, and dies at the end of thirty-five years. Then his heirs get the amount of the policy,

\$1,000, the same as if the policy had covered the whole life, and also \$445.72, the then amount of the investment outside. If he had paid the whole life premium his heirs would get nothing outside."

As a general rule this class of policies is not encouraged by the companies, owing to the greater ratio of mortality which is experienced in persons who choose this plan of insurance, and some companies utterly refuse to issue term insurance policies, which clearly proves that in some cases they are the most profitable ones to the insured.

SIMPLE ENDOWMENT.—A policy of this class is payable to the holder provided he survives a certain number of years : otherwise the premiums are wholly forfeited to the company. There is no *insurance* in this class of policies, because the company assumes no risk, and the amount is payable only in case the policy-holder survives. Policies of this kind are very little used, and ought never to be issued, but a few "children's endowments" are. The money spent in premiums would be more profitably invested by depositing it in a savings bank.

ENDOWMENT INSURANCE.—This is a combination of term insurance and simple endowment. The net premiums of these two plans, taken for any age and number of years and added together, will make the net premium for an endowment policy. It is payable as a simple endowment at a certain period if the insured survives, and if not it is paid at death, as in term insurance. The advantage of this kind of policy is that after the required number of premiums have been paid the insured, if living, will realize the whole amount of his policy. For this reason it has some attractions for those who insure for investment as well as for protection.

For several years until recently endowment insurance was very popular ; in some companies there would be thirty or forty per cent. of the business done on this plan, but lately there has been a change in the popular estimation of it, and only a small per cent. of the business is done in endowments. One reason is that the premiums are much higher than in other kinds, and the actual amount of insurance secured is much less. During the last year of the policy the cost of insurance is nothing. The practical working of high premiums is thus explained by Mr. Elizur Wright :

"It is marvelous how little it is considered that the more you pay in advance the more you insure your-

self. And the more you insure yourself the more you have to pay beyond your first share of the expenses." Another reason of their present unpopularity is that the people have been too often disappointed in dividends or return surplus on this class of policies, and as an investment they have not been found to answer the expectations which have been raised by a certain class of agents.

Short term endowments will do for those who are rapidly making money, and who desire to invest it in a manner which will be safe and give their heirs no trouble to collect in case of their early death. Long term endowments, maturing at the age of sixty-five or seventy, are well adapted to persons of limited means, who are desirous of realizing their policies in old age, and therefore should be encouraged.

Endowments are sometimes issued payable in a certain number (as twenty or thirty) years, and the premiums payable during a less time, usually ten years. There is no advantage in this kind of policy, except in certain cases where the payment of premiums would be more convenient by this method. The premiums are larger than in the regular endowments, and the amount of insurance by the company is much less.

ANNUITIES.—A sum of money paid by a company at regular intervals is called an annuity. It is called a contingent annuity when the number of payments depends upon the life of a person or any uncertain event. Insurance companies often sell annuities—that is, in consideration of a sum of money paid to the company, the latter promises to pay to the annuitant a certain sum during life. Annuities are directly the reverse of insurance. The earlier the death of the annuitant the more profitable will it be for the company, and the longer he lives the more will he realize from his investment. Annuities, which are quite common in England, are not popular in this country, probably because their true value to people well advanced in life is little known. Another reason is that the annual income from certain classes of losses will often realize quite as much as companies are willing to pay in an annuity. At the age forty, \$1,000 will purchase an annuity of \$64.36, according to the American Experience Tables, and four and a half per cent. interest, and at the age of fifty it will purchase \$75.55. Because companies do not give any bonus or return surplus upon them, money can usually be invested in some other securities quite as profitably. But for people well advanced in years,

who have a sum of money for their support, and no one dependent upon them, the purchase of an annuity is as safe and satisfactory a method as they can choose to make a provision for the remainder of life. If an annuitant lives beyond the expected period of death, the income every year is a clear gain to him.

Payment of Premiums and Days of Grace.

The premium of a policy should be paid on or before the day when it becomes due. Owing to the tendency of policies to lapse, and in order to give the policy-holders every suitable chance to keep them in force, some companies have adopted the practice of granting thirty days grace in the payment of premiums. When the policy-holder takes advantage of this privilege, the company should be careful to collect the additional accrued interest on the premiums deferred.

Formerly, when the lapsing of policies was considered a legitimate source of profit, the companies required all premiums to be paid by 12 o'clock M. on the day they were due, or the whole of the reserve and all dividends or bonus was forfeited to the company; but more recently it is admitted that there is often more profit in keeping a policy in force than by having it lapse after so much has been expended to obtain it.

Semi-Annual and Quarterly Premiums.

Premiums are also paid semi-annually and quarterly. This method makes considerable extra clerical labor for the company, although it may in many instances be more convenient to the policy-holder. Semi-annual and quarterly premiums are more apt to be followed by a lapse of the policy than those which are paid annually, and they occasion two or four times as much office work. The usual rule to find the semi-annual rate is to multiply the annual rate by 1.04 and divide the result by 2; and to find the quarterly rate, multiply the annual rate by 1.06 and divide by 4. By this method the policy-holder pays sixteen per cent. interest on the deferred part of the premium. If this fact were generally known and explained to policy-holders, deferred premiums would not be as popular as they are now.

Changes of Policies.

Policy-holders frequently want their policies changed from one kind to another, which they think will be

more profitable or less expensive. In the general ignorance of the comparative values of the different kinds, they are sometimes imposed upon by unscrupulous agents, and persuaded to take a short term endowment or other high-priced policy, when something less costly would have answered just as well. As a rule these changes are not favored by the companies, for they make a great amount of extra work at the home office, and the changes must be noted in several different books. When the insured wants his policy changed he must first return it to the company, and usually a new medical examination is required at his expense. The reason for requiring a new medical examination is that the kind of policy chosen may throw an increased burden of insurance on the company, which it did not agree to take when it issued the first policy. Thus a person may be insured on a ten year endowment, and suspecting that he may die in a few years he wishes to change it to the whole life plan, which cannot be done without additional risk to the company.

The new policy will either bear a new premium corresponding to the advanced age of the insured, or it can be dated back to the time of the first policy, and whatever surrender value there may be to the credit of the policy-holder can be used in paying the new premiums.

If the policy-holder or agent discovers that any mistakes have been made in the application or policy, notice should be given to the office of the company immediately, that they may be corrected. A post-mortem litigation over a policy is not a pleasant thing to contemplate, and should always be avoided if possible.

An agent should never induce the insured to change his policy for the sake of enabling him to obtain the first commissions. This is unjust to the policy-holder and brings the business into disrepute.



CHAPTER IV.

HABITS AND QUALIFICATIONS OF A GOOD AGENT.

Motives for accepting an Agency.

BEFORE a man commences the business of a life insurance agent, he should undergo a careful self-examination, and ask himself what are the motives which influence him. If he undertakes it just for a few months, because business is dull and he wants something to do till he can find some other employment, then he is tolerably sure to accomplish but very little. When once he has accepted this calling it should be regarded as a life work. If he sets out intending to make money by getting business anyhow, consulting neither the welfare of the company nor of the insured, if he works for that company which pays the highest commissions without regard to its reputation or antecedents, then he will probably find out before long that he has made some fatal errors. Having started with unworthy motives, he has adopted unworthy methods of action. It is not required that a man should become an agent for the sake of benefiting his fellow men, and thereby constitute himself a home missionary of life insurance and a colporteur of policies, but the company and the public do expect that he will bring with him the same honor, integrity and worthy motives which would lead him to enter upon any other honorable calling, and by which alone he can attain distinguished success.

Respect for his Calling.

Having started with proper motives, the first qualification which a solicitor of insurance should have is a consciousness that his calling is an honorable one. A belief in this truth should be firmly rooted in his mind. If other agents are a disgrace to the profession, let him resolve to be an exception. If he is engaged for a good company, he is conferring a much greater favor on the applicant by persuading him to take a policy than the applicant is upon the agent by making him the means of insuring his life. He should be fully impressed with the belief that life insurance is an antidote for half the

poverty which afflicts humanity ; that had it been generally practiced by every able-bodied man during the last fifty years, mankind would have been more industrious in order to pay their premiums, the old and infirm would now have a comfortable support, and many a child would have been assisted to obtain a good education or a more respectable position in society, instead of having to struggle on through ignorance, poverty and seclusion. He should remember that life insurance is opposed to intemperance, because every policy is fatally vitiated by death from drunkenness, or *delirium tremens*. It is the same with many criminal offenses ; in short, a life insurance policy puts a man under bonds to live and die an industrious, sober and peaceable citizen. Now there is a moral element in the business which we do not find anywhere else. The "drummer," or commercial traveler, who sells dry-goods, hardware or machinery, knows that he is conferring no such lasting benefit on the public as the life agent. His goods may increase their physical comforts, but they will have no effect on the character of those who purchase and use them. But in life insurance it is different ; the agent is selling something which will make a man love his family more, which will tend to restrain him from one of the worst of vices, and will elevate him in his own estimation, and in the estimation of those who love him. And before leaving this topic we quote the oft-repeated words of Hon. Elizur Wright, an authority which stands at the head of life insurance literature in this country :

"Among the honorable workers in the civilized world, to whom the public as well as the assured will die indebted, we give faithful and successful life assurance agents a high place, and no field that we know of is more inviting to an ambition that would devote the best of talent to the benefit of society at large and individuals in particular."

Appearance and Manner

The agent should be careful not to offend by actions or manners which may be repulsive, especially by too abrupt a method of presenting the subject. His whole duty is to please, to inform and convince, and the two latter results cannot be accomplished if the first is neglected. A great deal depends upon first impressions, and if an agent, by his agreeable manners and easy introduction, secures the good will of a stranger he has called upon, his chances of success are greatly im-

proved. Those men whose winning smile and silvery tongue have an indescribable fascination about them are they who succeed in gaining the attention and securing a willing hearing.

Tact.

There are some men whose personal magnetism is such that they will often persuade a man to insure who has fully resolved to have nothing to do with it. The applicant finds himself in conversation with one whose presence and manner are agreeable to him, and the subject of insurance, instead of being annoying, is made attractive, new views and features are presented, and finally, without intending it, he allows the agent to fill out his application. Such a quality cannot be taught by books or rules ; it can only be acquired by practice and example. If this agent, previous to this supposed interview, had meditated upon the task before him, he might have reasoned in this manner : "I have an article which this man needs : it will make him happier and better through life, but it is of such a nature that I cannot show it to him like an article of merchandise. It is a privilege which he can acquire in a certain contingency sure to occur ; it is also an obligation to be fulfilled by the company ; but I can only explain it, and allow him to purchase it if he sees fit. If it were a coat, or a hat, I could hold it up before him or let him try it on ; but now I must convince him that he needs this peculiar protection which a life policy alone can give. How shall he be convinced ? Where are his weak points ? Is he prejudiced in favor of or against life insurance ? In what way shall I approach him ?" It is tact which enables the agent to answer these questions, to introduce the subject in an agreeable manner, to watch the countenance of the party and discover if possible the thoughts which are passing in his mind ; to anticipate objections or parry them without seeming to contradict ; at the same time to interest and instruct, and finally to secure the application.

Social Qualities.

An agent should make friends wherever he goes. In all his intercourse with his fellow-men he should strive to leave a pleasant impression. If the circumstances are not propitious for introducing the subject of insurance, he should make his presence not only felt but desired again. This is not hypocrisy or deception ; it is

what all men ought to practice. In some other kinds of business it is equally essential. The salesman is taught to be as polite as possible to his customers, and to make them desirous to trade for the sake of trading with him. But in advocating the cultivation of the social qualities, it is not meant that the agent should get into the habit of treating his newly-made friends in every sample room or saloon. Such a course would in many instances defeat his intentions; but an easy, graceful method of conversation, a general *bonhomie* is a quality which will go far toward securing business.

Cheerfulness.

Whatever discouragements an agent may meet with, he should never allow himself to be betrayed into despondency or anger. A cheerful disposition is an essential quality to success. He should not get the idea that every man will insure whom he solicits; the newsboys in the street do not sell a paper to every man they ask to buy one. In a hundred men there are only one or two who will adopt anything new upon its merits without seeing how it has succeeded in the case of some one else, and then only after a great deal of deliberation and explanation. Such men should not be despaired of if they do not look favorably on life insurance the first time it is presented.

Nor should the conduct of rival agents disturb his equanimity. If they publish false reports about the company he represents, let him write to the officers and ask them how to counteract them. If the business is dull and money scarce, the labors of an agent should not be relaxed. In dull times the seed can be sown in the minds of those who would willingly insure if they had the means; or better still, it is the time above all others to urge insurance as the only sure method of making provision for one's family in case of death. In life insurance, as in politics, there are many things which must be forgotten. If one meets with a decided refusal in presenting the subject, there is no necessity for him to be angry or discouraged. Had the agent been aware of the motives which led the man to refuse to listen in this supposed case, he might have obviated his objections or stated some facts which would have produced a favorable impression on his mind. It is usually ignorance or prejudice which makes men refuse to listen to the claims of life insurance, and the only way for an agent to do is to calmly and perseveringly

prepare their minds for the reception of the truth. Men cannot be driven to insure, nor can they be brought into the fold in any other manner than in their own chosen way.

Good Temper.

Above all things, an agent should never lose his temper. The best way for an agent to disarm a person who treats him in a repulsive manner is to have a witty jest or a pleasant story to tell and watch the effect. In such a case we should say : Get a man to laugh with you, but do not laugh at him. It may be that you have presented the subject at an unseasonable hour, when his attention is engrossed with other things; your tact and good sense will show you whether this is so or not. If so, leave him favorably impressed with yourself and your cause, with one or two facts to think about, and take another opportunity of urging the matter upon him. There are some days and seasons of the year when trout will not bite, no matter how tempting a bait you may place before them.

Perseverance.

An agent should never despair of accomplishing some great and good results in his work. A short, spasmodic trial in the business is not a sufficient test. Because soliciting requires some of the highest qualities of a salesman, he should never deem any fact bearing on the business too insignificant, and no act too trivial in order to secure an application. Many men are a long time in making up their minds to take a policy. This delay may be caused by a constitutional slowness of perception, temporary financial embarrassment, or a prejudice which they have against it. It takes time for some men to examine the nature of the contract ; the agreement to pay a premium for a number of years or during life must be clearly considered. If one view of the subject does not produce conviction, another should be presented, the agent in the meantime endeavoring to study his case and present the most effectual arguments and remove those objections which stand in his way. The same persistency to be exercised in regard to individuals should be followed in the management of an agency. The great companies, whose influence is co-extensive with the Union, were built up by men who made life insurance the one great business of their

lives, who allowed nothing to turn them aside or to interfere with their ultimate success.

Enthusiasm.

Another qualification which an agent should have is zeal and enthusiasm. By this we do not mean a noisy, boisterous manner, which repels more than it attracts, but an earnestness which shows that the agent is sincere in what he says. It is not sufficient to present the subject of life insurance to a stranger and await his answer yes or no. An agent should feel that he is endeavoring to do a great kindness to the hearer ; that life insurance is one of the most important subjects which can attract his attention, and an earnest, sincere manner of presenting it is the only way to accomplish great results. He should talk as if he believed in it, and as if the future financial welfare of the listener depended on his taking a policy. Nothing short of this will answer.

Notice how the successful lawyer talks to the jury to win his case ; every muscle in his body speaks—every word is instinct with feeling and argument. And those who have won the great prizes in life insurance have been men who could sit down and so interest the hearer, so lead him on from one point to another, presenting the truth in such a clear and convincing light, that he would find himself gradually and imperceptibly convinced in spite of all his previous resolutions to the contrary. There have been and still are men in the field whose persuasive powers are so great, and whose earnest appeals so irresistible, that about all they need to secure an application is a fair hearing and a good opportunity to present the subject. Earnestness, then, is a trait which should be carefully studied, for without it the agent has little chance of success.

Honesty in Soliciting.

We have now come to one of the most important subjects in the whole work, because one of the greatest present curses of the business is the way in which agents misrepresent it. Some agents seem to think it necessary to tell larger stories about dividends and surrender values than any other agent, and to give the most positive assurances that the company which they represent is far better in every respect than any other. In discussing the qualification of truthfulness, we propose to speak on the subject with exceeding plainness,

and not to leave unsaid anything necessary to purify the moral atmosphere of the agency business.

An agent should deal honestly with the applicant. By this we mean that he should not allow himself to recommend any plan of insurance which will not continue to be satisfactory to him. He should not let his greed of first commissions urge upon him a five or ten year endowment, with a costly annual premium, when a whole life policy, or life policy with fifteen or twenty annual payments, would do just as well, and be a great deal more appreciated by the policy-holder, as soon as he learned the difference between them. A great part of the disgrace into which life insurance has fallen among a certain class of men, and the greatest part of the lapsed and paid-up policies, are traceable to the misrepresentations made by agents in procuring the application. An agent should never tell a man in moderate circumstances and with a growing family that he had better take a ten year endowment instead of a whole life policy, costing the same annual premium. Agents have been greatly to blame in this, and the consequence is that the popularity of short-term endowments has justly suffered during the last few years. If a man offers to invest his money in this manner, he should be informed that the same amount of money in another form would confer a much greater benefit on him, while in costly short-term premiums, expectations are raised which are hardly ever realized. But the companies have been as much to blame as the agents, owing to the ignorance or carelessness of the officers in not grading the commissions properly, or because it is made more lucrative for the agent to insure upon the high-priced short-term plans than any other. But more information now prevails in regard to this subject. Men are insuring now for insurance and not for the promised dividends ; they are buying insurance as a protection to their families against want, and not as an investment. They begin to see the mistakes they made when they leaned implicitly upon the judgment of the agent. In all cases when the applicant does not express any preference for some particular plan of insurance, after finding out what one is really best for him in his present condition, the agent should urge that which is the best adapted to his circumstances. Then the policy will not be so apt to lapse, the renewals will be more promptly paid, and the company will have a better reputation for the honorable dealing of its agents. In all these matters the agent is not working for himself alone, but for the company, which is inter-

ested in having a class of business which will stay on the books till the claims mature. By taking a manly, straightforward course, by consulting the real interests of the insured, and recommending only such forms of policies as will be really satisfactory when clearly understood, the agent is honoring his calling and laying a foundation for many future renewals.

Consequences of Misrepresentation.

A dissatisfied policy-holder, one who believes that he has been misled by an agent, is capable of doing an immense deal of harm. Perhaps he rushes into print, showing how the agent promised one thing and the company performed another ; how he does not get the expected dividends ; how the company will not give him any surrender values ; and all the neighborhood is excited about the swindle of life insurance. If the company does not fulfill all the promises which the agent made when soliciting, he is very apt to hear of it when he collects the renewals. Other policy-holders will listen to his statement, and the policies will gradually drop off and few if any be added.

It is a lamentable fact that the policies, as a class, taken during the past few years, are short-lived ; in the best companies only seven or eight years is estimated the average, while in France the average age of a policy is upwards of twenty years, or about three times as great as ours. And this is mostly owing to the dissatisfaction of the public and the misrepresentations which agents have made about future dividends, surrender values, liberality of the company, etc. Life insurance in this country has not been *overdone*, but it has been *badly done*, and a thorough reform is imperatively demanded.

But the fault is not wholly on the part of the agents; the officers of many companies are equally to blame for furnishing the means and the opportunity of misrepresentation. They supply agents with printed documents giving wonderful hypothetical statements which may be realized under certain conditions; they cause "great expectations" and give infinitesimal results. The agent is taught that his business is merely to get applications and to forward the premium, no matter what statements have been made to procure them. No attempt is made by such companies to elevate or purify the business. If the agent succeeds in bringing in a sufficient number of applications, he is honored with a front seat, if not, he is of no importance.

Some Companies insist upon the Truth in Soliciting.

But in contrast to this there are some companies which take a noble stand against all kinds of misrepresentation and deception in soliciting. They are not so numerous as they should be, but we hope their number is annually increasing. Such companies will be the most prosperous when once the people learn that they are never deceived or disappointed by their agents. When Mr. A. T. Stewart was once asked what was the greatest difficulty he had to overcome in his business, he replied, it was to make his clerks speak the truth. In his immense palatial stores, the largest on the continent, no misrepresentation of the quality of goods is allowed. The same rule should be insisted upon in soliciting life insurance ; the standard of veracity should be placed high, and then the business will be more honorable and more profitable. The following extract from a letter of the secretary of a life insurance company to an agent, expresses our opinion so fully that we deem it worthy of a place here.

"With a full knowledge of the fact that there are in the field of life insurance a few men who belie the benevolent nature of the institution, and give evidence of a want of that high honor that bears a man above the tricks of charlatans, and of that strict veracity which will sacrifice gain to truth, the officers of this company have from the first set their faces against the employment of any such men, on any terms whatever. They will have nothing to do with falsehood or deception in any form or any degree. They do not believe that they are necessary to the success of the business ; on the contrary, they are fully persuaded that they are an injury and a disgrace. They cannot therefore tolerate for a moment the idea that one of the company's agents shall use such means for success. The company seeks and desires men as agents who not only *will* not, but who *cannot* get their own consent to resort to falsehood or deception in order to succeed in any case. The company wants truthful men, men who cannot stoop to a mean act for the sake of gain ; who esteem honor and truth as rubies above all price. Such men give character not only to the institution, but to the company they represent, and redeem life insurance from the obloquy which a few men here and there have thrown upon it by false representations. The institution is all that it claims to be, and truth and probity will build it up more rapidly than falsehood and deception."

Character of an Agent.

In addition to what has been said is it necessary to discuss the importance of an unblemished reputation for veracity and honesty in an agent? In some kinds of business a man's reputation is his stock in trade; there are manufacturing establishments whose trademark is worth a fortune; when people buy their goods they know that no deception is used in trying to sell them as anything different from what they really are. There are some lawyers whose advice would be cheap at one thousand dollars, while that of others would be dear at ten. Why this difference? Because in the one case a man has spent years in building up a reputation which will last his lifetime. Men believe what he says, and they know he would not make any incorrect statement. It should be so in life insurance; every agent should strive to have such a reputation for veracity and honor, and be so well known in the community where he is at work, that his word would never be questioned. And if every agent would make this his aim, and if companies would take special pains to see that their agents made no misrepresentations, we should have far less dissatisfaction with the companies than at present, and one of the most troublesome features in the business would be removed. An agent passing a few weeks in a town, and talking with hundreds of people, soon becomes a marked man; people remember his statements and talk of them to each other, and if he insures a number of people, they remember him as long as their policies are in force. If he has secured their applications by some exaggerated statements about dividends or profits, or told some preposterous story about the advantages of his company, they will talk of it to others, and neither himself nor his company can do any business there afterward. And this is the more palpable because people feel more sensibly when they are duped by a life insurance agent than by almost any other person. If a man buys a horse he sees the animal; he takes the reins and drives him, and in his purchase relies upon his own judgment; but the contract of life insurance is one which he seldom or never sees till he has paid for it, and he cannot tell whether the agent has misled him or not for several years afterward; he does not see the company or know anything of its affairs; he takes everything on the word of the agent, and if he is disappointed, he lays the whole blame upon the company. The company may never have given the agent any authority to make these statements; that

makes little difference as long as he has procured applications by deceptive methods. The reputation of the whole company and that of every other agent suffers by the conduct of one who is unable or unwilling to maintain a rigid adherence to the truth. If an agent, in returning to a place, finds those whom he formerly insured are satisfied with his company, he is far more likely to get new business than a stranger ; he can point to his old applicants and say, " here are men whom I insured some years ago ; they keep their policies in force, and are satisfied with them." His character now bears its fruit.



CHAPTER V.

INFORMATION NEEDED BY THE AGENT.

Should know what Life Insurance is.

SUPPOSE a lady calls at a drygoods store, the clerk shows her a piece of goods, and the following conversation takes place : "What kind of material is this made of?" she asks, "is it cotton, woolen or silk?" "Oh, I do not know," replies the clerk, "it is cloth, and that is all I know about it." "But is it the spring style or is it a remnant left over from last year?" "I do not know, madam; it is cloth, and it is my business to sell it for so much a yard." "Is it fast colors—will it wash?" "I do not know ; you had better buy it and try." "But this is for gentlemen's wear; I want something for a dress." "Oh, that will make no difference. if the dress is made to fit, it will wear just the same." Now how valuable would such a clerk be to a merchant who wished to work up a first-class retail trade in a fashionable street? To sell goods readily, a clerk must know what the goods are, and their various qualities. But a good clerk will often sell a piece of goods to a customer when she had no idea of purchasing. "Now, madam," he says, "here is a new style of silk ; it is just imported, and you are the first customer who has had the pleasure of examining it. See what a gloss it has, and how fine its texture," and as he holds it up to the light, the customer is perfectly enchanted with it, and as the clerk dilates upon its beauty and good qualities, she is more and more convinced that she needs it, and finally concludes that she cannot do without it, and the clerk sells her a bill of goods.

If an agent goes before the public like clerk No. 1, and says, "Gentlemen, I have several kinds of insurance for sale here, with the prices given in this little book, but I do not know the difference between these plans—which are adapted to your peculiar situations and which are not; like the boy at the show, you pays your money and you takes your choice ; but this fact you may depend upon, the more money you pay for premiums, the higher commission I shall get, so let me have

your applications for \$10,000 apiece," it cannot for a moment be supposed that these inducements would be very efficacious, or that his proposal would be immediately accepted ; but this is almost the very course which many agents take. With no preliminary training or study of the subject, with no fixed ideas of insurance as a business, they stuff their pockets with pamphlets and commence soliciting. When asked any pertinent questions they will say that their company will do as well as any in the United States, or that all plans of insurance are good, but as high-priced articles are usually of a better quality than cheap ones, so short-term endowments are much better for a man than whole life rates. On this subject Mr. Cornelius Walford, of England, makes the following pertinent remarks :

"With agents of insurance companies the proverb that 'knowledge is power,' applies with peculiar force. The man who knows most of the theory and practice of the particular branch of insurance which he is engaged in advocating, should, all other things being equal, be the most valuable agent to his particular company. In addition to a general knowledge of the business, the agent requires to know not only every point concerning his own office, but also a great deal concerning others ; by these means only will he be able to make way in these days of increasing competition."

Or, in the words of Mr. Philip Sayle :

"Perhaps the most damaging and most incomprehensible evidence of the narrow-minded agent is found in the limited view he takes of the principles and application of the science with which he is associated. Superficially he knows the application of the different modes of insurance put forth in the prospectus, but ask him for the reason of certain processes, and he is all 'at sea.' He fails to observe that the 'sign of the times' is to require not merely a human machine that can fill up a proposal form and collect a premium, but an intelligent, thinking agent, who can freely converse on the subject, and explain the principles on which the matter is conducted. The great publicity which is now given to assurance matters, and the evident reaction which has set in in favor of the subject both here and abroad, will compel all who intend to prove themselves valuable agents to post themselves up in that information which once belonged exclusively to the actuary."

Adaptation of Different Plans.

But suppose that the agent, educated to know the difference between the different classes of insurance, talks

to men in this style: "My dear sir, you are engaged in extensive stock speculations; you are making money rapidly, but in a manner which is not without its dangers. An endowment would be a good investment for these reasons: you will get a fair rate of interest on your money, even if you live till your policy matures, and if you die, you will have your life insured; if reverses should come in a few years, a proportional amount of your policy would be secured to you, and you can afford such a kind of policy." To a single man who has a liberal salary he says: "Let me urge you to take a ten year life policy. In a few years you will be married and your family expenses will be increasing. After ten payments, you will have no more premiums to pay, but if in a mutual company, the amount of your insurance will be increasing as long as you live. This is exactly the kind of policy you need." To a man in moderate circumstances with a large family he says: "You need an annual payment life policy; you cannot afford anything more expensive, and in this manner you will get the greatest amount of insurance with the least expenditure of money. It is precisely what is adapted to your circumstances."

Now the agent who understands the advantages and disadvantages of the various plans, will not offer every man the same kind; he will take care to inform himself what is best adapted to the wants of the applicant, and then he will explain to him how and why it is he needs that particular kind of insurance. But in order to judge correctly, he must know the fundamental principles of the business. A few years ago it was very different; then nearly all the policies were on the whole life plan; it was Hobson's choice with the agent and the assured; now nearly every company has about thirty or forty different rates for the same age, and new plans are being invented every year, with more or less excellences or defects. An agent must understand these differences; he must be able to explain them and point out their faults. It is not necessary for him to go through the whole list, discussing each rate, but when called upon for an explanation of a particular premium, he should be able to give it in a clear and satisfactory manner.

New Plans and Features.

Every year new plans and new features are presented to the public. Some companies adopt them, and by a series of hypothetical calculations, explain how the insurance will be afforded almost or quite for nothing.

One agent is told that another is doing a successful business on this "new plan," and he wants his company to adopt it. If the officers of the company see through the shallowness of any pretension and refuse to touch it, he thinks they are too conservative. But an agent with a clear understanding of life insurance will be able to tell the wheat from the chaff, and the new plans of other companies will not give him much trouble.

Agents must instruct the Public.

Another reason why agents should be well posted in the principles of the science is that the outside public depends almost wholly upon them for its knowledge of the business. Men who have never made it a subject of careful study know no more how to analyze the annual statement of a life insurance company than how to dissect a corpse. Usually those only who come in contact with agents have any clear idea of the importance of such knowledge. Since it is a part of the duty and mission of agents to educate the public on this subject, how important it is that they should be able to do it well. How can we account for the fact that juries, in a life insurance case, are so often prejudiced against the company, and no matter what the evidence may be, they so often decide against it? Are not the companies to blame for this? Had they employed trustworthy and well-informed agents, who would not or could not make misrepresentations, there would not be so many people who look upon life insurance as a scheme to get their money and return them little or none.

Insurance Literature.

The best men in any profession are those who keep themselves fully informed of the latest news and discoveries in their business. It is so in law, medicine, and every science. Within the last few years nearly every business has produced its special organs. Even the manufacture of paper, iron, and tobacco have their regular journals devoted to these trade. Insurance is no exception to this rule. Insurance books and papers must be read if agents mean to succeed. There is no need of reading all of them, but a judicious selection can be made which will not involve a great expense and which will be of great value. In insurance periodicals they will find articles explaining the science, the plans adopted by different companies, charts, tables and statistics, showing their standing and progress. There are elementary books which explain the science, reports of

insurance officials, giving the standing of the companies in detail, and their opinions, which are often important and instructive. A little careful observation will show that the most successful men in any business are those who are fully posted in it, and are the first to seize every advantage as fast as it is offered.

Need not be an Actuary.

A private in the ranks should know the company movements, but it is not necessary for him to comprehend all the manœuvres of a brigade drill. It is the business of his captain and colonel to understand them. His duty is simply to obey intelligently the orders of the captain, and they are confined to the school of the company. This example illustrates the wants of an agent. There is a certain amount of information about insurance which he must possess in order to succeed ; but there are many things which are not necessary for him to understand. If an agent has only a smattering of actuarial knowledge, and relies mainly upon it to convince the public of the need of insurance, it is apt to be a damage rather than a benefit to him. If he perplexes his customer with formulas, figures and ratios, and ciphers it down to the nearest cent just how much his death claims and surplus interest will be, and what rate per cent. he will make on his investment, the man loses his way in the chaos of figures, and the probability is that the application will be lost. This sort of discourse should never be voluntarily offered. If explanations are asked, they should be given in a simple, clear and correct manner. It is well enough to make a few simple statements, such as the premiums during any period, or an illustration of the benefits of insuring, but if an agent attempts to demonstrate to his friend that by the contribution plan or any other plan his annual premiums will net him from thirty to forty per cent. dividend as a clear profit in the transaction, if the listener is a man of much intelligence, he will suspect that life insurance companies depend upon exaggeration for their prosperity. An agent makes a great mistake when he undertakes to explain the whole science in order to secure an application. The agent should be able to give satisfactory answers, but a man's attention should not be drawn away from this leading thought, that he needs insurance as a protection for his family in case of death. If he objects that the science is deceptive, that the co-operative style of insuring is safer and cheaper, or is skeptical on any point, the agent should be able to meet

these objections in a clear and conclusive manner ; but ordinarily he will do well to avoid abstruse mathematics.

It is sometimes said that "there is no need of an agent's knowing anything about the science of insurance, because he gets an idea that figures will not lie, and by placing constant reliance upon them, he loses the application." It is not the knowing, but it is the telling of this kind of information at unseasonable times which causes the trouble. It is important for a minister to understand Greek, and for a lawyer to know something of Latin, but the former would make but few converts by quoting the Septuagint, and the latter would not influence a jury by repeating passages from the Pandects in the original. A life insurance agent, like any one else, can make himself ridiculous by an ostentatious parade of his knowledge, if he has a weak understanding or excessive vanity. But if he shows the same discretion as other business men, he will find that all the information he can acquire will aid him in presenting the truth in new and forcible ways.

Should understand Interest and Discount.

An agent should have sufficient knowledge of arithmetic to perform all the ordinary operations in interest and discount in a rapid and accurate manner. It sometimes happens that a man wants to count the cost for a series of years ahead, or know the comparative profits of investing in insurance or some other security. On such occasions a simple illustration, neatly and correctly prepared by means of the tables, which are easily accessible, will be of great service in producing conviction.

Well posted about his own Company.

An agent should be thoroughly informed about the financial history, condition and success of his own company. This information can easily be obtained from the State reports or from the printed circulars issued from the home office. He should be thoroughly acquainted with all its plans and peculiar features, and if necessary, he should spend time in giving them a careful investigation. If practicable, he should have a few special examples, showing the benefits derived from certain policies. He should examine every table of rates and be able to select any premium on the slightest notice. He should read all the advertising pamphlets of the company, and thus he will know just what

is needed. If there is any new feature which the company makes a specialty, he should know all about it and how it compares with the plans of other companies. If the company has any definite rules about surrender values, he should know what they are, so that he can always avoid making misstatements on the subject, but if this information is withheld from him, he has no right to assert that the company adopts any particular practice or rule, but he can only say that the matter is in the hands of the officers, and that they consider both the wants of the policy-holder leaving the company and the rights of those who remain. Whenever the company makes any change in its methods of doing business, every agent ought to be informed of it and clearly comprehend its nature. But although an agent should be so familiar with his own company, he should not make this the principal basis of his argument when soliciting. He must talk something else besides "company" to a man in order to insure him. The old and familiar name of the company, the respectability of the directors, its favorite plans, conferring unheard-of advantages—all these will not suffice unless the agent makes the need of insurance the principal motive for taking a policy.

Knowledge of Human Nature.

We have come now to the most important qualification of an agent: *He should understand human nature thoroughly.* He may understand life insurance well, he may know all about his company, he may be able to demonstrate the financial value of insurance to the nearest cent, yet all this will fail unless he knows men. A physician may know all about the properties of medicine, but if he knows nothing of the human system in health or disease, then he will make some fatal blunders in attempting to cure patients. A physician comes to the bedside, he feels the pulse, looks at the tongue, and hears the story of the patient, and then decides what ails him, and what medicine is needed. So in life insurance, an agent talking with a man about his business, his prospects in life, his circumstances and family, can determine what plan of insurance will suit him, or whether he cares very little about the subject. When he makes a new acquaintance, he should ask himself, "What arguments will have the most influence on him? Where are his approachable points? Is he an impulsive man, one whom I can insure at a single interview if I get a fair chance to pre-

sent the subject, or is he slow in coming to a conclusion—one who will need to ponder over the matter a long time? It is this power of reading character at a glance which gives some agents their great superiority over others; they form their conclusions with lightning rapidity and act accordingly.



CHAPTER VI.

WHAT TO AVOID.

IN this chapter we shall discuss some of the faults which agents are apt to adopt, and endeavor to give them a word of caution which may save them from making fatal blunders.

Too much Talking.

It sometimes happens that an agent believes that the way to insure a man is to talk insurance to him as long as he is willing to listen. This is often a fatal mistake. In purchasing insurance, men are laying themselves under obligation to make a regular payment of money for several years, or for life, and as a general rule they cannot decide upon the matter at the first interview, especially if the policy is a large one. Most men are rather slow in making up their minds about incurring further obligations, and conviction must come gradually. If a man has had arguments in favor of life insurance previously presented to him by other agents, and has a clear idea of what life insurance is, then one or two convincing arguments may be all that is needed, or if the sum is so small that he feels that it makes little or no difference with him financially, the agent may be able to insure him with little hesitation. The first question in his mind should be, "Do I need this insurance?" This is the main point in persuading a man to insure; if he can be made to believe this, then the rest is not so difficult. When this is answered in the affirmative, the next is, "How much can I be sure of paying for?" Neither of these questions can be promptly answered, unless he has carefully considered the matter beforehand.

The agent should confine himself to argument and avoid lecturing. The applicant should be encouraged to ask questions and suggest objections if he feels disposed. In this way he will take more interest in the subject and give greater attention. Having discovered the strong points in a man's character, and the principal reasons which have hitherto caused him to remain uninsured, the agent should make those his principal

points of attack. If the man is convinced that he needs insurance, and is resolved to take as much as he needs, the work is done ; there is no necessity of explaining the whole science to him. It looks too much as if the agent tried to drive him into the company *nolens volens*. Men may be induced, but not compelled to insure. In all cases no favorable opportunity should be lost, no advantage neglected, but when the man is evidently tired of the subject and wishes the agent anywhere else, then it is time to try some other method, or leave the matter until another opportunity.

By too much talking he discusses many matters which may not be necessary to secure conviction. Any definite statements about dividends or surrender values should be avoided, unless the agent has the terms which the company authorize him to make, and which the company is pledged to fulfill. The same is true in regard to other companies; all reference to them should be avoided if possible. When not needed, all allusion to these subjects is so much ammunition thrown away, but if insisted upon, the agent should state clearly and precisely what the company will do according to the terms of the policy, or what has been its practice heretofore ; or he should merely say that these matters are entirely under the management of the officers. It is always the safest to leave out all those topics which are not absolutely necessary to win the case.

Denouncing other Companies.

It is unwise for an agent to make an indiscriminate onslaught against other companies. By so doing more enemies than friends will be made. If a young physician should commence practice in a large town, and begin by denouncing all his medical brethren as quacks, he might get some patients, but it is far more likely that he would have the whole town arrayed against him. Almost every man who has paid any attention to life insurance thinks favorably of some particular company ; either he has been solicited for it, or has some friend insured in it, or has read some flattering statement about it. For an agent to say that his company is the only one in the country worthy of confidence, and that all others are vastly inferior and worthless, is sheer nonsense. No matter what company an agent may represent, there are others in the country just as good in many respects as his, although there may be points in which his company excels. An intelligent agent of almost any company can take an insurance report and

show that in some particulars his company is to be preferred to many others. But if an agent endeavors to make progress by "running down other companies," some one equally intelligent as he is may take a chart out of his pocket and say : "Your company is far behind others in this and that particular ; look at these ratios, these assets and expenses." Constant abuse of other companies lays an agent open to suspicion as a man whose statements must be taken at a discount. Many will say, "How is it possible, while there are a hundred life companies, that this agent has got hold of the only reliable and safe one ? Life insurance is open to all for competition, like any other business, and I know that there are many companies honorably conducted in which I would trust my savings, with the hope that my family may some day be benefited thereby." Another reason why other companies should not be indiscriminately denounced is because an agent cannot always make good such assertions. If a man contemplating insurance once detects an unsound or exaggerated statement in an agent who is a stranger to him, he regards him with suspicion afterward, and confidence once lost in this manner can seldom be regained. This mode of warfare has been tried by companies as well as by agents, and uniformly fails. Some of our most prosperous companies have been the most bitterly assailed by others through the press and by agents, and what has been the result ? They seemed to thrive under abuse ; their own agents took up the cause with new ardor and greater success. Abuse is not the weapon which wins in soliciting ; it is a sword which cuts the hand of him who uses it, and he who draws it in an offensive warfare is usually the first to sheathe it. When a rival company is mentioned to an agent, it is far better to say : "Such a company is a good one ; if you have insured in it you have done well, or if you have promised to insure in it you will find it worthy of your trust; but I can offer you advantages just as good, and in some particulars, I think you can do better with me." Such an answer will go much farther toward securing a patient hearing and be more likely to secure a policy than abusing it as a dangerous rival. If, however, an agent is confronted with a company which is evidently unsound and unworthy of confidence, he should not hesitate to say so, if he can give substantial reasons for his opinions and prove his assertions by official reports and statistics. But under all circumstances we do not think it is best for him to make a Don Quixote of himself, and spend his time on all sorts of windmills.

Advising Unprofitable Plans.

Most people, when called upon to insure, know little or nothing of the kind of a policy they need ; unless they are somewhat informed about life insurance, they do not know why they will not get just as much insurance out of a ten year endowment as out of a ten year term policy. They usually take such kind of a policy as the agent recommends to them, and some agents, who look more to their first commissions than the good of the company or the policy-holder, make a specialty of short-term endowments. It is the agent's duty to know what kind of policy is best suited to a man, taking all his circumstances into consideration, and then to advise him without regard to self-interest. As a general rule, the best plan for a policy-holder is the best for the company, and also for the agent. If the agent talks nothing but ten year endowment, which the policy-holder does not need, and which he cannot always continue to pay for ; after a year or two the latter will surrender it and get a paid-up policy, and having been disappointed once, he will resolve never again to have anything to do with life insurance, and it is not unlikely he will denounce the business to his friends and neighbors as an unmitigated swindle. Doubtless a part of this trouble is due to the officers of the company in not grading the commissions so that it would be as profitable for the agent to work on one plan as on another; but the fact cannot be denied that a great part of the insurance annually effected has been hitherto on unprofitable plans, simply to get the first commissions. Now we hold that an agent should insure a man in such a way, if possible, that he will *stay insured* and will never want to change, but will continue to pay his premiums year after year as long as they are due. While agents should be taught by the companies not to work for first commissions only, the people who insure should be urged to keep their policies in force as long as payment of premiums is required.

Agents should avoid Odd Forms of Insurance.

If the tables of rates limit endowments to five, ten, fifteen years, etc., the agent ought not to take an endowment payable in eleven, sixteen, nineteen, or any other odd number of years. Such policies usually require a special premium rate to be made, and they are a source of great annoyance in the home office. The same may be said of all kinds of insurance not specially author-

ized by the company. An agent picks up a circular of another company, containing some peculiar rates of children's endowments, or some queer kinds of policies, and he thinks, "If my company would only adopt those plans, how much business I could do!" The fact is that the great mass of people who are insured have policies on the usual rates, and a much larger proportion of policies lapse on these odd plans than on the regular methods.

Extravagant Statements.

The business of life insurance and the record of the companies have been so well known during the past few years, that it is highly important that an agent should be very careful in making any statements about the future dividends or future progress of the company, which cannot be substantiated. It may be well enough, when asked, to tell what the company has done in the past, and to leave the applicant to conjecture the future by the previous record. The less he has to say about this subject the better, but people will make inquiries, and the only way to satisfy them is to appeal to the past, or to show that his company will do as well as others have done. The same is true about future business. No one can predict what progress any company will make during the next few years. Some companies which were formerly doing a small and quiet business, have suddenly entered the front ranks, and others which were noted for their prosperity, manifest but little desire to obtain new risks. If the policy-holder is convinced that he will be justly dealt by, he need have little concern about the rest. The same is true about the different classes of dividends which are heralded abroad as being a wonderful success. Now in all kinds of dividends these postulates are true: A company cannot divide surplus which it has not got. In order to get this surplus the policy-holder must pay it. And lastly, if one man gets more than his share, some others must get less, or it must be made up from lapses. Any specious claim that some new arrangement for distributing the surplus is going to produce wonderful results to the average policy-holder is simply absurd. We have spoken thus freely about dividends because the extravagant statements made concerning them have been the principal cause of disappointment and vexation among policy-holders and the lapse of their policies. We hope that this state of things is passing away; that the time is near at hand when the public mind will

be so well educated on insurance that all "Great Expectations" will be abandoned; that people will know how to distinguish the true from the false, and that all agents or companies whose principal stock in trade is boasting and extravagant promises, will find their "occupation gone."

Newspaper Criticisms.

An agent should pay little or no attention to the comments of the newspaper press upon life insurance. Not one writer in a thousand understands the science thoroughly enough to give a proper criticism upon any company or plan of insurance. Nor should an agent ever rush to the editor's sanctum to ventilate his own grievances, or to traduce another company. That is a game which two can play at, and in the end he will injure the whole business—the innocent as well as the guilty. If a policy-holder in another company imagines himself wronged because he does not get sufficient dividends or surrender value, an agent should not lend his assistance toward making the fact public in the newspapers. This is the wrong method of dealing with other companies.

Bogus Insurance.

Agents should beware of all companies or organizations which deal in bogus insurance, such as co-operative benefit societies, mutual aid companies, or any of the concerns which pretend to insure people and collect the payments by voluntary assessments. No agent can have anything to do with them without being disgraced among the insurance fraternity, as much as any citizen would be if he set up a mock auction store, a faro bank, or a brass jewelry establishment. Again and again these companies have been proved to be swindles of the basest kind, practicing upon the credulity and ignorance of the public, and gathering a rich harvest of fees from their certificates of membership, which, as far as insurance goes, are seldom worth the paper on which they are written. They pretend to form classes of five thousand each, and at the death of each member in the class, each of the survivors makes a contribution of one dollar to be paid to his heirs. Hundreds of these co-operative companies have been started in this country during the last few years, and when their promoters have reaped a harvest of initial dues from ten to twenty dollars each, the society has disappeared. In some of the

States the arm of the law interposes and prohibits their operations within its limits, in others they are allowed to flourish in full vigor. Let them alone ; no honest agent can touch them and retain his self-respect and standing. Dishonest agents will find but little aid and comfort in this book, except motives for reform.

Unnecessary Expenditures.

Agents should avoid too great expenditure in getting new business. A costly office for one who is just commencing, elaborate furniture and huge gilt signs, do not always pay. Policy-holders are not taken by any such kind of bait. Selling life insurance and selling drygoods in a retail store are done on different plans. In the former case the agent must go about and hunt up his customers and talk the subject to them ; but in selling dry goods, the greater the display that is made at the shop windows the better. Not one man in a hundred or thousand in this country ever comes into an office to get insured of his own accord. Some agent has presented the subject to him, has talked and argued with him, and finally has persuaded him to make an application. The gilt sign did not attract him, it was the leaflet put into his hands by the agent, and the earnest words which accompanied it. An extraordinary expenditure and costly adornments of an office are apt to excite suspicion in the public. They look upon his style and manner of spending money as an unfavorable symptom for the policy-holders ; they regard it as a weakness or fault of the company, and hesitate long before they will commit their funds to such a guardianship. Nor are good agents attracted toward a company by any such means. They form their opinions from the official reports of the State Insurance Departments more than from any such sensational displays. An extravagant style of carrying on the business operates unjustly upon the members of the company. A life insurance company is the treasury of the hard-earned savings of its members, and not a dollar ought to be wasted. But experience has shown that it does not pay to get business in this manner. The most prosperous companies are those which have united energetic measures with economy in expenditures, while nearly all that have started off with high commissions and other evidences of extravagance have done little solid business, and now make a sorry display in the official reports.

Brokerage.

Unless the policy-holder lives in the vicinity of a home office, every premium should be paid to an agent who has a direct interest in its collection. By this means the company is less liable to have the policy lapse than if it were left entirely to the judgment or inclination of the policy-holder whether to keep up his policy or not. In collecting renewals the agent has a good opportunity to ask the policy-holder if he does not want additional insurance, or if he has not some intimate friend who would probably insure, and he can leave him some statements respecting the financial condition of the company which will strengthen this confidence in it, and prevent his policy from lapsing. By the brokerage system all these benefits are lost ; it is bad for the company and for the agent. It is the fruitful source of much of the lapsed and surrendered business of the present day. The company pays a higher commission to the agent for the first premium on the condition that all future commissions will be avoided. But such policies are usually short lived ones, and in many instances the agent persuades the policy-holder to change his policy to that of some other company for the sake of getting another first commission. Such practices tend to degrade the business. One fundamental idea in life insurance is permanence, a regularity in paying the premiums as long as they are due ; but this course leaves the policy-holder entirely to his own inclinations, and he is apt to lose all interest in the company. It injures the agent ; he should accustom himself to look upon the renewals as a part of his own property, and take a pride in having them paid from year to year.

Rebate.

This is an evil which has grown up during the last few years among some agents, owing to the excessive competition they have to contend with, and it has a very pernicious influence on the business. The practice of giving a part or the whole of the first commission to the insured in order to induce him to take a policy is what no honorable agent will allow. It deranges the business. If a man wants insurance enough to pay his premiums promptly during life, or a series of years, he can pay the whole of the first premium ; if he will not pay it, what dependence is there to be

placed on his implied promise to pay the renewals? It injures the success of other agents. If such a practice is once commenced and openly proclaimed in any town or city, other agents will have to make the same terms or lose some of their business. An agent who begins to cut under in this style will find other agents combining against him to injure his company, and he will not be able to accomplish much. It is a confession of inferior capacity in an agent; it shows that he cannot succeed in the regular way, and has to resort to some such underhanded means. If an agent honestly earns his commissions he is entitled to them, and he injures himself and gets a bad name among his fellow workers if he does not insist upon obtaining them.

Intemperate Men.

An agent should never attempt to insure the life of a man who is intemperate or is given to occasional inebriety. Such people usually live only about one third as long as strictly sober men of the same age, and the risk is so great that no respectable company will knowingly issue a policy to such an applicant. The words of most policies read that if the assured shall die by intemperance or delirium tremens, the policy shall be void, but even partial intemperance brings with it a host of diseases, any one of which may suddenly carry off the victim, and the good-natured family physician, anxious to keep on good terms with the family of the deceased, will generally certify that he died of brain fever or apoplexy, or anything else than intemperance; and too often his friends will confirm the doctor's professional opinion on the subject. Let such men alone. If it once gets about that an agent is insuring such a class of risks, sound and healthy men will avoid his company.

Leaflets and Premium Tables.

An agent need not make a practice of giving away the leaflets and prospectus of the company to every one with whom he converses on insurance. As a general rule they are immediately thrown aside with hardly a passing glance, like all other advertising matter, and only a very few persons will take the trouble to notice them. But if the man entertains any particular objection to life insurance, and the agent has a leaflet which precisely meets his case, it is advisable to present him with one and urge him to read it.

"To the mass the prospectus is a mysterious and unintelligible document which no pains or scrutiny can unravel. Again, as a rule, not one in a thousand assures from the influence of a prospectus alone. One of the most—perhaps the most—successful canvassers of past times *never gave a prospectus to any assurer*, but simply wrote the amount of premium the proposed policy would cost, on a slip of paper. As this gentleman remarked to us, the assurer did not want a whole book full of tables; all he wanted to know was, what it would cost him to assure a specific sum, at his present age, on a certain table ; beyond that information only became confusing."—PHILIP SAYLE, JR.



CHAPTER VII.

CHOOSING A COMPANY.

Old and New Companies.

PEOPLE generally separate life companies into two classes—the old and the new. The prevailing idea among them is that the former are those which are twelve to twenty years old; that their assets are usually reckoned by millions ; they have their agencies firmly planted in most of the States, and enjoy the reputation of being slow, safe and conservative. They profess to take only the best risks ; they pay lower commissions, because their reputation is already made ; they have comfortable and often elegant offices, and are disposed to take things quietly, looking out with indifference upon their younger rivals who are striving hard to overtake them. The popular ideas of new companies are not much more correct or favorable. Many regard them as experiments, having their reputation to make and sustain, and coming in competition with older companies, they have a difficult task before them. To get new business they must make greater sacrifices and pay greater commissions. They may make greater promises, but it is doubtful whether they will be realized.

Now neither of these popular views is always correct; there are some old companies which are very progressive, and some new ones which are very conservative. Some old companies have this advantage, that they are so well known that it is less difficult to insure a man in one of them than in a new company, provided the applicant has no preference. He is more likely to recognize it as an old acquaintance, than to express surprise that it ever existed so long. In new companies, an agent has often the choice of more favorable territory than in old ones, and in most instances he can make quite as favorable contracts, but he must go forth with the understanding that he is a pioneer. The name of his company is a new one; people are not familiar with it ; he must convince them that it is sound and well managed ; that its policies will be duly paid at maturity; that the insured will receive a due share in the surplus premiums if it is a mutual company, and, if there are some new plans or peculiar features, he must ex-

plain them and convince the public that here are some decided advantages.

As a general rule, young companies have greater initial expenses, such as establishing agencies, paying first commissions, etc., and on the other hand, a smaller ratio of death claims, owing to the more recent selection of lives. But there are other qualities which should have more influence with an agent than the age of a company.

Mutual, Mixed, and Stock Companies.

The three generic classes into which all life companies may be divided are :

Mutual companies, which have no capital stock as a basis, and whose surplus premiums are wholly divided among the policy-holders:

Mixed companies, in which there is a capital stock, usually of \$100,000 or more, as a basis upon which the company was started, and upon which a stock dividend is paid to the shareholders.

Stock companies, with a large capital stock as a basis, and which pay no surplus to policy-holders, but issue policies at reduced rates of premium.

Without discussing the merits or disadvantages of any one of these classes, we shall simply set forth the claims which each presents to the public.

In regard to the first two of these classes there is practically but little difference in the advantages they offer. About the only difference between them is the \$100,000 or more capital stock as a basis, which is lost sight of when the assets amount to a few millions. Some mixed companies which are well managed confer quite as large benefits upon the insured as others which are purely mutual.

Some of the oldest and largest companies in this country were started without a dollar of capital, and solely through the energy, popularity and rectitude of their officers, their assets are now numbered by tens of millions. During the past few years the legislation of many of the States has prevented any new company being put into the field with less than \$100,000 capital, and some of the mixed companies have become mutual by retiring their stock.

In choosing a company, the distinction between mutual and mixed companies should have very little weight with the agent ; he should look more carefully to other things—its officers, management, etc.

In regard to stock companies, the case is somewhat different. It is evident that during the next few years

the great battle of facts, arguments and statistics is to be fought between these two systems of insurance. The mutual companies (which will include the mixed) are in the majority more than twenty to one; claim that they furnish safer insurance than stock companies, because the margin or loading protects the company against the consequences of extraordinary mortality ; that the insurance in the end is cheaper because all the surplus profits are returned to the insured, and that the success of mutual companies is an established fact, while that of stock companies is still an experiment.

On the other hand, the advocates of stock companies claim that the rates of interest in this country fully justify the reduction of premiums to the present standard; that their capital stock is fully sufficient to carry them over the trial period of youth, until the interest on the reserves will render their ultimate safety certain ; that the insurance is cheaper, because the reduction of premium is practically a dividend in advance ; that the contract is simpler, more definite, and less liable to cause dissatisfaction, because there is no room for misunderstanding about the quantity of surplus premiums or the method of its division ; and finally, that the facts and statistics upon which the stock companies are based are taken from the experience of the mutual companies during the past twenty or thirty years.

Character and Standing of the Officers.

This is the most important point for the agent to examine, but unfortunately it is the one which is usually the most neglected. It is the official staff of a company which gives it its standing, and unless their characters, business qualities and professional skill will bear a rigid inspection, an agent is perfectly safe in looking somewhere else for employment.

Now an agent, before he accepts an agency, has a large number of companies to select from, and it is his own fault if he does not choose one which is properly managed. It is not enough to say that any company will do if it pays high commissions. High commissions are sometimes the penalty which companies, or rather the policy-holders, have to pay for bad management or want of public confidence.

It is not so very difficult for an agent to learn the truth about the officers of a company. By making the necessary inquiries in the place where the company is located, all the necessary information can be had. If he was going to deposit his own money in a bank, he

would probably find out something about its standing and credit. The same rule applies with still greater force to an agent. It is a duty which he owes to those whom he insures. He should not ask a man to pay money into a company unless he is satisfied that it will be taken proper care of, and when any of his applicants ask him about the standing of the officers, he ought to be able to give them a satisfactory and truthful answer. There are companies enough whose offices answer the description given above, and no honorable and trustworthy agent need fail of finding one which is fit to be trusted with the funds of policy-holders.

New Plans of Insurance.

An agent should not place too much dependence upon new plans and features. A new plan may be attractive, or may be an improvement, but it cannot be depended upon to get business. A man buys an overcoat because he needs one to keep him warm. He does not often buy one just for the sake of getting one of a peculiar style or cut. It is so in life insurance ; a man insures for compensation in case of death, not for the sake of some peculiar idea. If he really wants insurance, he may choose the new plan, but if not, the new feature will be hardly any temptation to him.

Nearly all new plans can be reduced to three classes:

1. *Different methods of paying the premiums.* If a man has a ten premium life policy he must pay a larger annual premium than if the payments were continued during his whole life ; the more premiums he pays the smaller they will be on the same amount of a life policy, and *vice versa* ; just like filling a measure with apples, the larger the apples the less number will be required. In this matter the agent should clearly understand the effect which large and small premiums have on the amount of insurance actually obtained.

2. *Different methods of returning the surplus.* Here there is more room for misunderstanding and deception. A company cannot distribute surplus which it has not got, and it is absurd to suppose that by any particular plan each one of all the policy-holders in a company will get a larger amount of surplus by one plan than by another. A new patent or copy-righted arrangement for computing surplus is usually a method of robbing Peter to pay Paul.

3. *Different privileges and restrictions.* The general tendency of companies is to allow policy-holders many privileges which were formerly denied them.

How far this letting down the bars is advantageous we do not decide. Travel and residence in unhealthy countries, and occupations which tend to shorten life, may be necessary for some men to support themselves, and some companies see fit to charge such policy-holders an extra rate for the extra risk incurred. But since some companies hold out these "liberal features" as special inducements to policy-holders, the agent should give them a proper examination.

Experience has proved that a new plan or a new feature may be a good thing ; but some companies with several new plans have done little business, and others with no new features are among the most prosperous in the country ; and therefore in choosing a company an agent should consider all these specialties as of little consequence. There are other qualities of far more importance.

Methods of Doing Business

Every company of any prominence has some peculiar ways or methods of its own in the management of its business, depending entirely upon the ideas and individuality of its officers. The administration of some companies is conducted on the principle that they must get business at any cost, applications must flow in by every mail, the medical examiner must let in all who can show a reasonable probability of living, and the agent's ability is gauged by the amount of insurance obtained. Expenditures are of no account, for to make money the company must spend money. After a while such companies wake up to a consciousness that this does not pay. They find that their policies are short lived, and their ratio of death-claims is great. Then comes a spasm of economy : expenses are cut down, agents' contracts are changed, less insurance is done, and the company settles down to a conservative method like those companies which they so much denounced for their old fogy traits.

There is another extreme : A company may be so very conservative that it never succeeds ; its plans of insurance may be faultless, its officers may be men of spotless reputation and undoubted honesty, the affairs of the company may be carefully managed, but it never grows very fast. Agents do not like to work for it ; they leave for other more wide awake companies, and it does not prosper. The trouble here is that the company is not managed on correct business principles. A want of liberality to agents, of energy on the part of

the officers, and a failure to adopt such methods of winning the favor of the public have caused this state of things. What was expedient ten or fifteen years ago is *passé* now. The officers have not the tact to adapt themselves to the changes which have been going on, and the company falls behind.

An agent should make up his mind that, next to his own energy and perseverance, his success will depend greatly upon the views which the president or manager of the company takes of the business ; and if the latter is not adapted to his place, or if his views are absurd or obsolete, his own career with the company can never be a profitable or an agreeable one.

Reputation of the Company with Policy-holders.

A company should have a good reputation among its own policy-holders. If they are dissatisfied with the company after having been insured in it for several years, then there is good reason to examine their objections. One way of looking at this is by examining the State Insurance Reports, and to keep posted by reading reliable insurance journals ; but outside of journals devoted strictly to insurance the newspaper opinions of companies are worth little or nothing.

Past History of the Company.

Thanks to the American system of publicity, the past history of almost any company doing business in the United States can be pretty accurately known. The Insurance Reports are accessible to all and in them we find the complete statistical history of all the important companies. There is no excuse for an agent to say that he had no opportunity to investigate the company before he became connected with it. This is knowledge which it is absolutely necessary for him to have before he can meet the objections of the agents of other companies.

Agents should work only for Good Companies.

If this chapter has been properly understood, we believe we have made it clear that the agents have the reputation and standing of the life insurance companies in their hands. If agents would never lend their services to companies of questionable reputation, nor to those whose chief attraction is the excessive commissions they offer, if they would satisfy themselves

that the men whom they insure would never look back with regret to the time when they first listened to the persuasive voice of the solicitor, if truth, frankness and honor always preceded the application, and confidence, satisfaction and good faith always accompanied the policy, then a reform would be begun which would be thorough and permanent.

A company in this country can no more progress without agents than a general can fight without soldiers ; and if agents understood their importance and value, so as to insist upon good companies or none, one great improvement would be accomplished. Then every choice of a company would be an emphatic indorsement of its officers and plans, and every rejection would be an equally significant condemnation of them. Every good agent should feel that he has a power which has never yet been used to its full extent, and which, properly directed, would be one of the greatest influences for good which can be developed in life insurance.



CHAPTER VIII.

THE COMPANY.

It is highly important that an agent should clearly understand his relations with each of the officers of the company, as a great part of his success depends upon his obtaining their confidence, and without their aid and co-operation his labor will be apt to prove a failure.

If his field is in the immediate vicinity of the home office, he has an opportunity to know them at least by reputation, and can judge somewhat of their ideas of business ; if he is stationed at a distance he is usually under the authority and direction of a general agent or manager of agencies. In the latter case, the decisions of the manager are final, and he should look to him for instructions. What has been said in a previous chapter about being posted in regard to his own company, includes all the knowledge he can avail himself of respecting the business qualifications and reputation of each of its officers and their general management.

The President and Vice-President.

The president is the highest authority in the company. Upon him devolves the decision of all the more important questions connected with its management. In many cases, however, the more active control falls upon the vice-president, and then all that is here said of one is equally applicable to the other. All questions of contracts, the appointment of general agents or managers, and sometimes of solicitors, the assigning to them their special territory, the making of purchases for the company, the investment of funds, and all the more important duties, devolve upon him. This is a position of no ordinary importance, and it requires the rarest executive ability and great general information. If the agent has any business with him, it should be conducted with the most cordial frankness and respect; the agent should always desire to sustain the reputation and add to the prosperity of the company, and should render prompt obedience to all of its commands. The president, having larger experience and a general oversight of many agents, it is to be expected

that his opportunities for judging of the expediency of measures would be superior to that of solicitors whose observation is usually more limited. It may be a spur to the ambition of agents to know that the presidents of some very successful companies commenced the business of life insurance as solicitors, and after getting a thorough knowledge of its details, organized companies of their own and are conducting them on sound business principles.

The Secretary.

The secretary is the organ of communication between the company and the outside public. It is a part of his duty to prepare contracts for agents, to take charge of the correspondence of the company, and such details as require a constant supervision. It is highly important that all business matters which are transacted between the agent and the secretary should be of a friendly nature. He is, as it were, the spokesman of the company ; it issues its orders and performs its official acts through him, and his position is one of responsibility and influence.

In corresponding with any of the officers an agent should be as definite and explicit as possible. Where a man has from twenty to fifty letters to answer every day, he is apt to become impatient if his time is taken up in attending to unnecessary details of the agency, or in reading the opinions of an agent expressed in an unintelligible manner. If a solicitor is immediately responsible to a general manager, then all his correspondence should be with him, unless it is of such a character that it needs the attention of the home office. But in all cases the agent should express his wants and opinions with brevity and simplicity.

The Medical Examiner.

In the home office of every company a medical examiner is in attendance every day to examine parties who wish to insure. As their examinations are conducted in private, and reported immediately to the officers, the agent has little to do with him. His duties being strictly of a scientific nature, he does not even know who the agents are. But when agents are stationed at a distance from the home office, they have medical examiners appointed in the towns where they are located, and often the agent has something to do in recommending them to this position. Or, perhaps, on the agent

having obtained an application, he goes to the nearest regular doctor and gets him to examine the applicant. The position of a medical examiner in such a case is a peculiar one. He knows that he is indebted to the agent for the fees of examination, and on his opinion of the health of an applicant will depend the commissions of an agent. When this occurs, it may be hard for him to maintain a perfect independence, and to decide whether to reject a risk for which the agent has labored long and earnestly, or to state the facts which he is confident will lead to his rejection. But the company cannot prosper unless the medical examiner is perfectly independent of the agent, and decides all these questions in a disinterested manner. *The company pays for a strict and impartial examination, and is entitled to it.* What is the agent's duty under such circumstances? He should never attempt directly or indirectly to influence the medical examiner. He should neither suggest certain replies nor question any of his conclusions. The medical examiner should confine his sources of knowledge strictly to the application and his personal inspection of the candidate for insurance. When the application is completed, the agent has nothing more to do with it, as far as the medical examiner is concerned, nor should he receive any information from the agent on the subject of the health of the applicant. All interference of this kind is unprofessional.

The Manager of Agencies.

The manager of agencies ought to be a man of great business tact, experience, and an unblemished reputation. His knowledge of the practical working of a life insurance company should be such that he can decide immediately upon any scheme, proposal or plan of business within his jurisdiction as to whether it is in harmony with the best interests of the company or not. As this officer has usually a large extent of territory, and is expected to make himself familiar with the wants and the working force in every part of it, he comes more in contact with the agents than any other member of the company. If an agent needs any information, such as the advantages or disadvantages of the special features of other companies, or the best method of operating upon certain classes of individuals, he should apply to the manager. It usually happens also that the agent or solicitor is directly responsible to him as his employer instead of the other officers of the company. When this is the case, all that has been said in regard to the

relations of the agent with the president or secretary will apply here.

Devotion to the Company.

An agent should devote his whole services to his own company. He should feel that its honor and reputation are in a great degree entrusted to his keeping and connected with his interests ; that while he is laboring to increase its assets and the number of its policy-holders, its good name and reputation are becoming a tower of strength to him, and its prospects for affording him a more ample revenue are daily increasing. Without this feeling of allegiance he will be almost sure to fail. Whether he is at work for a young or an old company, he should always be able to show that there are many qualities about it which make one of its policies a desirable investment, and to do this he should not only have perfect confidence in it, but should master all that is said in reports and charts about it.

His devotion should not only be earnest but lasting. Having once connected himself with a good company, he should not think of changing without sufficient reasons. If, after a few months' trial, he is successful in procuring new business, he will probably have several invitations to work for other companies. Another, he is told, pays higher commissions or has more assets, or distributes a larger ratio of surplus, or has some new plans which are peculiar to it, and which will procure a vast amount of business. It is natural for an agent to desire to improve his condition ; but before he yields to any such entreaty he ought to ask himself seriously and sincerely whether it is best to make a change. If he has carefully complied with all the hints given in the last chapter about choosing a company, and has acted with due deliberation, there will be little or no desire to change.

Influence of Agents on a Company's Reputation.

The company is indebted to the agents in a great measure for the reputation it has in a community. It is not sufficient to say that the company picks out its own agents, who act on their own responsibility. The people will hold the company responsible for their conduct. An agent goes into a town, and by misrepresentation and deception succeeds in doing a large business for a few months. After a while the promises which he made in behalf of the company are not fulfilled by it, and the policy-holders are discontented and

let their policies lapse, or at least they never speak favorably of the company they are insured in. Those who stop paying their premiums always have a grudge against it for sending out such an agent. They look upon him as a proper representative of the company for whom he is employed.

It may be that the officers are partly responsible for this state of things ; perhaps they have not sufficiently cautioned their agents to avoid all misrepresentations or exaggerations ; but this will never excuse an agent from feeling that the honor and prosperity of his company is inseparably connected with his own.

Contracts with the Company.

The contract which an agent makes with a company is usually limited to a certain territory, and the commissions on all business which he procures. We shall not attempt to give any laws or to lay down any infallible rules which ought to regulate the payment of commissions to agents. The companies usually adjust them upon the different classes of policies in such a manner as suits their own ideas of propriety.

The contract which an agent makes should be explicit and clearly understood by both parties. As long as it is in force, the agent should regard it as of the utmost importance to his reputation and success that it be complied with in all its particulars.

Commututed Commissions.

The agent's renewal commissions are his own property, subject to the terms of the contract by which he accepted the agency. It often happens that an agent wants to sell out his right in the future profits of his business, and the question arises, what is their present value, or how shall their present value be ascertained ? If it were certain that there would be no lapses or surrendered policies, the present value of the future commissions could be arrived at very easily. But at present nothing in life insurance is more uncertain. There are many different things to be examined in determining their approximate value. If the company is one in which the policy-holders have perfect confidence, then the policies will be more likely to be kept in force than if the reputation of the company, or some of its methods of doing business, were not so satisfactory. If most of the policies have been in force several years, and the premiums have been regularly paid, then their

future continuance is highly probable. If the general character of the agent is good, and his business has been honorably maintained among reliable men, then these circumstances should be considered in the agent's favor. Moreover, it should be taken into consideration that one is much more apt to keep up his renewals if the agent who insured him calls on him for their collection than if they are to be sent to the central office by mail.

No definite rules can be given for determining the value of this species of property, and companies cannot make very liberal terms with agents because of the uncertainty whether these premiums will continue to be paid. The best terms which an agent may expect to get is the present value of them for a few years, as the case may be.



CHAPTER IX.

THE AGENCY.

The Field.

If the agent is commencing the business of soliciting he will find it advantageous to begin his labors where he has a number of acquaintances and personal friends. They will listen the more readily to him and be more favorably impressed toward his company, and he will be far more likely to take applications among them at the outset than among total strangers. His personal friends will assist him in making new acquaintances and in informing him of those who would be likely to insure.

It is a great mistake for an agent to suppose that he needs a large field for his exclusive jurisdiction. An agent in laying out too much work for himself is apt to end in accomplishing little. In every thickly-settled community or large town, there are a great number of people who are not insured, and who only need to be convinced in its favor. It is not the extent of territory worked over, but the number of applications, which makes the agent's record. When an agent has once commenced in a place, and is doing well, he should remain there as long as he is successful. His territory can be enlarged as he shows capacity to work it. But if a solicitor commences by monopolizing a large field at the outset, the company is apt to expect more than he can accomplish. In attempting to do too much he does nothing thoroughly, and in the meantime he is incurring considerable expense in traveling. It is like cultivating a large farm with insufficient help, and consequently the harvest is small.

It is equally a mistake for a solicitor to suppose that he must have a field which is new, or where the subject of life insurance has been little talked about. In such a field he will find the people strangers to life insurance, and consequently harder to convince than if some agent had already insured some of the principal citizens. If an agent can say "Here is Mr. A. and Mr. B., prominent men in this place, and men of good business capacity, who would not spend money foolishly, they have their

lives insured to a heavy amount," it will go far toward convincing a skeptic of its importance. There is no place in the country where all the people are insured who can pass examination and who can pay annual premiums on a respectable sum, and while this state of things exists, there is room for one more agent.

His Headquarters.

An agent should have his office or headquarters in some prominent town or place where there are wealthy men whose influence he can rely upon in advocating the claims of his company. In a thickly-settled town or city he can see twice as many people in a day as in the country, and he can make himself better known to them in a shorter time. In such a place he will find it easier to start a business. Men in active life, who see considerable of the world, and who have an opportunity of knowing something of the practical benefits of life insurance, are more apt to insure than those whose circumstances and pursuits are less prominent.

Insuring Certain Classes.

Some agents who operate in large cities make a specialty of insuring men in certain kinds of business and professions. There is an advantage in this which is worth consideration. When the agent is well acquainted with men in any profession, he understands their general habits, he knows when they are most accessible, and what arguments will influence them most; by making this a study he can get into their confidence more easily ; he can say, "I have just insured Mr. So-and-so, whom you know, and who is in the same business you are." When an agent gets into a groove of this kind, insuring lawyers, brokers, or any class of business men, he has an advantage over those agents who attempt to take all classes in their nets.

Should build on a Solid Foundation.

Whatever is worth doing at all, is worth doing well.

In commencing his work, the agent should bear in mind that it is of the greatest importance to begin right, and then it will be easy to remain so. He should take no steps he will have to retrace, nor begin any work which he will have to undo. In building the East River Bridge, the foundations of the piers were laid on the solid rock, because the structure is expected to last

for all time; so in establishing an agency, the agent should regard it as his life work, and act accordingly. It is like clearing a farm in a Western wilderness; when the trees and stumps are removed, and the ground brought into a high state of cultivation, the farmer can depend upon it for an adequate support as long as he lives.

An agent is laboring for the future; if successful, his renewals will afford him a constant income, and if he is careful in selecting his risks and retains the confidence of the company, his reward is sure. If he has carefully followed the precepts given in the preceding chapters, he has done much toward future success ; and for his encouragement hereafter, let him ever remember that the best companies and the most successful agencies, are those which were begun right and conducted with unremitting energy and correct methods.

Securing the Influence of Prominent Men.

One of the most important things connected with an agency is to secure the influence and goodwill of prominent men in the vicinity where the agent is going to work. Some companies dopt this principle on a large scale. When they go into a new State, they select some of the most prominent men for a "Board of Reference." It is understood that these men have examined the affairs of the company, or are so thoroughly acquainted with it that they are competent to give a correct opinion of its soundness and the standing of its officers. Without going into a discussion of the "local board plan" as such, it is safe to say that men who would never think of insuring under other circumstances, will give an agent a patient hearing if his company is indorsed by some prominent men in whose opinions he has confidence.

In coming into a town where an agent is not known, one of the first things he should do is to get a list of the leading citizens who are good risks, and insure as many of them as possible. Some of them may be acquainted with his company, or may be personally known to some of the officers, and this will aid him materially. There are many men who will not look at an insurance leaflet, or think of taking a policy, until they are told that Squire A. or Rev. B. or Dr. C. has his life insured. Most men are so constituted that they like to have their thinking done for them. When some one else in whom they have perfect confidence has taken a policy, they are ready to do the same.

The minister in every parish has a great influence over his flock, and if he can be persuaded to insure, a strong point will be gained, since he knows all the influential men in his congregation or parish, and can give the agent valuable assistance in pointing out those who would be likely to take a policy. It is also a good idea to persuade the leading members of a church or congregation to present their minister with a life insurance policy, and with it a pledge to keep the premiums paid during his stay among them. Apart from the good such an act might do the agent, it is a simple duty which all parishes owe to their spiritual guides if they are faithful and deserving. Is there any present more acceptable than a life policy, or an endowment maturing at the age of sixty-five or seventy? If an agent can persuade a minister to insure, or his church to insure him, both the agent and his company will be tolerably well advertised by the operation.

Owners of factories and foremen in large manufacturing establishments should be objects of special attention. A policy from one of this class will go a great way toward introducing the agent to the favorable notice of the workmen, and when they once hear that their "boss" is insured, they will have little or no doubt but the company is a safe and prosperous one. The same rule will apply to many other organizations. If the agent belongs to any society, lodge, or military company, he should lose no time in insuring as many of the influential members in it as possible.

This idea of using certain kinds of machinery, such as the corporations or organizations which we have just described, is one of the most important points in soliciting. It should be the constant question on the mind of every agent, "How can I use this influence or that organization in building up my business?" Nothing should be left untried which has a fair show of success —no honorable means should be neglected to increase the business of the company and to get himself in the way of taking important risks. There is as much room for strategy in soliciting life insurance as there is in military operations; there are campaigns to plan, and there are victories to win in both. As he is the most successful general who unites boldness and vigor to the application of every scientific discovery which can be used in war, so is he the most successful agent who can make all the different human agencies subserve to increase his business and the reputation of his company.

The medical examiner in any town or city can give an agent a great amount of valuable information about

men—who are the best risks and who would be likely to insure. His professional knowledge will enable him to tell the agent when is the best time to see certain parties, what kind of men they are to approach, or what arguments would be likely to prevail with them.

Other Events.

An agent should take advantage of every event which has a tendency to bring the subject of life insurance before the public. If a man dies in the place where he is soliciting, and is heavily insured, the agent should make this a special argument in favor of life insurance. He should find out how large a policy he had, how many premiums he had paid, and their aggregate amount, and then he can go before the public and say, "Here is an instance where a man paid only a few hundred dollars, and his widow has now several thousand paid to her by the company. Here is a practical illustration of the business worth of life insurance. If she had received this amount from a rich uncle whom she had never seen, everybody would have said, 'How lucky she has been!'" If a man dies without any insurance on his life, the agent can say, "That man could have been insured a year ago for \$5,000 by paying only one or two hundred dollars; but he thought life insurance was a humbug, and see how his affairs are left, and how his family will be situated in the future."

If an agent discovers that a gentleman or any of his family are going on a voyage to Europe, or any distant country, he should lose no time in offering to insure their lives, and should urge the importance of protecting each other by insurance. Most people look upon a voyage at sea, and travel in a distant country for the first time, at least as fraught with no little danger, and they should be more willing to insure than ever before.

Other family events have some influence: the birth of a son or daughter may be the occasion of a father's taking an endowment policy payable when the child is of age. A man just married may sometimes be induced to take a policy in favor of his wife, especially if he is entirely dependent upon his own income or salary for their support.

Advertising.

An agent should take every suitable opportunity to make himself known, and the company he represents

should also be kept prominently before the public. In some companies the whole business of advertising is placed in charge of one of the officers or employees, who selects such channels and takes such measures as he thinks proper. But whatever the agent is allowed to do by means of handbills, show-cards hung up in hotels and public places, advertisements and editorial notices in the local papers, should be diligently attended to. In most places of public resort a handsome show-card is always welcome, and people looking at it merely to admire its beauty will get some idea of the company. Nothing of this kind should be despised. It is rather mortifying for an agent to be asked, "Where is your company located? I never heard of it before." But if the company has been well advertised by the means which have been suggested, this misfortune will not be likely to occur. A great deal of money which is spent in advertising is utterly wasted. As a general rule, a short local notice which will attract the eye and fasten the attention of the reader upon one or two facts is the most effectual method. It is more apt to be read and remembered than a half column displayed advertisement. But while all these things are useful as aids in obtaining business, no reliance should be placed upon them, without personal effort and active canvassing. Printers' ink, unaided, will not bring in the applications. The public is not yet educated up to that standard.

Excelsior.

Finally, every agent should endeavor to make his agency as profitable and respectable as possible. He should look upon it as a man looks upon his farm or his factory. It is his means of livelihood, and the money and labor he spends upon it is so much capital invested. He should not only bring it up to a high state of cultivation, but should make it an ornament to the place in which he lives. In like manner an agent should take a pride in having the best agency and the best selection of risks in the place where he is located. In everything which is praiseworthy he should strive to excel all his competitors. This should be his firm resolve. No spasmodic effort, no temporary measure will produce this result. It cannot be done in a single day or a single year, and the agent should take hold of it with the determination to make it his life work. It is a great mistake for an agent to suppose that he can work in one company a year, and the next year transfer all his business to another, and

get rich by such a system of changes. That is not the way in which the great fortunes in life insurance have been made, or by which the great agencies have been built up.

The Ultimate Record.

Before concluding this chapter it may be well to show to the young aspiring agent that there are prizes to be won in the life insurance tournament, as well as battles to be fought which the outside public knows little about. We should not be justified in setting forth the duties, the sacrifices, and the labors of an agent without likewise giving some faint glimpse of what has been and what can be done by those who have shown themselves worthy. Some of the most profitable general agencies of our leading companies yield a revenue of from \$10,000 to \$30,000 per annum, and nearly all of this is from renewal commissions. The income has been honestly earned, and the business has been built up by the hard toil of years of soliciting and the successful management of subordinate agents.

There is no business more honorable when rightly managed, nor is there any more sure of reward for one's labor, than a successful life insurance agency.



CHAPTER X.

ACCOUNTS WITH THE COMPANY.

Monthly Statements.

A GOOD agent will be careful to keep accurate accounts of all the business transacted, premiums received, and expense incurred in his agency. In order to do this successfully he should be a man of correct business habits, and have some practical knowledge of bookkeeping. The company furnishes him with blanks to make up his monthly statements of new policies issued during the month, the renewals falling due, together with those held over from the previous month for want of payment. It is of great importance that this statement should be correctly prepared, and that all the accounts should be made to balance. The sum of the premiums on renewals and policies returned and those on hand, together with the expenses charged and cash remitted, should equal the total amount of premiums charged in the account. Whenever any policy or renewal has been retained in the hands of the agent as long as the rules of the company allow, without the premium being paid, it should be promptly returned to the company for their disposal.

Office Books, etc.

An agent should have a register of all the policies taken at his agency, and this book should be so ruled and arranged that it will show the number, date, premiums, commissions, etc., of each policy taken, and give a general epitome of all the business done. It is a very important adjunct to the office, as it enables the agent to tell what premiums are falling due each month, so that he can send notices to the policy-holders a sufficient number of days in advance, and also when to return policies not taken or renewals on policies which have lapsed. He should also keep an expense book in which all the company expenses at his agency are noted, such as medical examinations, traveling and office expenses, etc., and vouchers for all expenses incurred should be taken if required by the company.

He should also keep a supply book in which he records all the supplies received and the disposition made of them. All the letters and correspondence relating to his business which he receives from the company or other parties should be carefully indorsed and filed. As these books are the property of the company, they should be open to the inspection of the officers whenever they are demanded.

In writing to the home office respecting any particular policy, *the number of the policy should always be given in preference to the name of the policy-holder*, and all references to different policies should be made in this manner. A strict adherence to this rule will save an immense deal of labor on the part of the clerks in the home office.

Careless Agents.

Some agents have such loose business habits that they seldom or never prepare a monthly statement correctly, and when it is sent to the home office, the mistakes or discrepancies are discovered, and the secretary has to return it for correction or write for explanations, and a whole month or more elapses before it is rectified.

When the president or some of the officers of the company visits such an agent, everything is in confusion; he does not know how his accounts stand, he is doing such a business that he has not had time to attend to these trivial matters, and the consequence is, that several days must be employed in going over his accounts and putting them in order. This trouble and confusion is entirely unnecessary. The time of the officers of the company is extremely valuable, and it is putting the company to an unnecessary expense which a little attention and correct bookkeeping would have saved. An agent's reputation as a man of business depends a great deal on such things as these. If he is so much engrossed in getting new business that he cannot keep his accounts straight, or has not sufficient knowledge of bookkeeping and has no time to acquire it, he should employ a competent clerk to do it for him.



CHAPTER XI.

SOLICITING.

In this chapter we propose to give some general ideas of soliciting, and as many particular ones as may be deemed expedient. But in giving these directions and precepts, we wish it to be understood by the reader that we do not warrant them to apply to every case which a solicitor may have, nor do we think it is possible to present any infallible rules or specific arguments for soliciting, any more than it is to give infallible directions how to make a fortune by speculating in Wall Street. Men are so different in their circumstances, their habits of thinking and acting, that seldom can any two be won over by the same arguments. Soliciting is a business which must be conducted entirely according to the circumstances of the case, and the agent must be the sole judge of the propriety of the means to be used ; and whatever directions and arguments are here given, are meant to be employed when the circumstances are such as to justify their use, and not otherwise.

If a doctor knows the properties of a hundred different kinds of medicine, and their effect on the human system, this knowledge is of no use to him in any particular case, unless he knows with what disease the patient is afflicted. If the patient has the smallpox it is useless to prescribe medicine suitable for the typhus fever. If the doctor comes to his bedside, and without looking at him says to himself, " I have a hundred different kinds of medicine, every one of which is a specific against some disease, and of course I can cure this, therefore it is of no use for me to feel of his pulse, or to look at his tongue, or to learn any of his symptoms—if one medicine does not produce the desired effect, another will, and I have only to experiment on him till he gets well"—would such a doctor be a very successful practitioner? No. That is not the way a physician goes to work. He makes a careful examination of all the external indications of disease, asks him a few simple leading questions about his symptoms,

and in a short time he has satisfied himself what is the ailment and what remedies are needed.

In the same way an agent should find out as nearly as he can what arguments he will have to produce and what objections he will have to meet before he asks a man to insure. He should learn as nearly as possible what his means are, and how much he can probably afford to pay on a policy. It should be done before the man is asked to insure for any particular amount or on any definite plan. If the agent suggests too large a premium he will frighten him away if too small, the agent does a large amount of work gratuitously. He should learn, if possible, his age, so that he can tell precisely how much premium will be required. If the party is already insured, the agent would do well to find out in what company, and if the policy-holder is satisfied with the bargain, he should show the resemblance between that company and his own, and any circumstances of superiority can be pointed out ; care should be taken to keep him satisfied with what insurance he has, to induce him to take more.

If he is a careful, cautious man, one who builds entirely for the future, then the agent may explain how a policy in a responsible life insurance company is exactly suited to his wants ; that the payment of policy claims and the stability of life insurance companies are as certain as any corporations.

In some way or other almost every man can be reached by arguments in favor of life insurance. Some are so easily pleased with the idea that they are making certain provision for their families, that they will readily insure for a large amount; others must see money in it, and will not take a policy unless they are sure of getting the best of the bargain ; others, still, will insure because some one else has, and these peculiar reasons, motives or inferences which lead men to insure, cannot be seen at a glance, but have to be discovered by diligent inquiry and cautious observation.

Introductions.

Among a certain class, especially prominent business men, in our large cities, an introduction either in person or by letter is often necessary to produce a proper impression and to induce them to give the subject that degree of thought which is required to secure an application. An introduction is a virtual pledge made by the party presenting the stranger, that the latter is a person worthy of confidence, and it also carries with it an obligation on

the part of him to whom the man is introduced to listen respectfully to what he has to say. When an agent comes as a perfect stranger to a man and asks him to insure, the latter must be convinced that he is worthy of confidence, and that the company he represents is entirely trustworthy. There is no method of doing this so quickly as by having an introduction from an influential friend. Substitutes for this may be adopted, such as circular letters signed by influential citizens who have obtained insurance, or others well known for their reputation. The end which the agent seeks to accomplish is to make himself favorably known to the public or to particular individuals, and to bring his company into notice, and any honorable method which suggests itself to him should be tried.

A Suitable Opportunity.

This is an important point in soliciting. It will do no good to go a trout fishing when the streams are covered with ice, nor to hunt wild ducks around the northern lakes in midwinter. There is a certain time and place most suitable for accomplishing everything, especially in life insurance. A commercial traveler knows that there is a certain time in the year when spring styles of goods will sell, and a time when only the fall and winter styles will be looked at. It is somewhat so in insurance. If a farmer has just sold his crops, if a merchant is doing a thriving business, or if a broker has just made a fortune by speculating in stocks, then here is an opportunity for the life agent which is too good to be lost. Let the agent look after these men without delay. Let him select such hours of the day when he can call upon them without putting them to inconvenience, and then present the claims of life insurance as earnestly as the nature of the case will allow. Under all circumstances the conduct of the agent should depend upon his innate sense of propriety, and the greatest care should be taken not to say or do anything which will repel a man from taking a favorable view of the subject.

Stating the Business.

In soliciting insurance the agent should always bear in mind that he has an article for sale, which in all probability the man really needs but does not desire, and his first business and perhaps the whole of it is to convince him that he does need it. To commence talking about

any particular company, or new plan of insurance, is to begin at the wrong end. It takes for granted that the man wants insurance, but does not know where to find it or what kind, which is not very complimentary to his self-esteem. Life insurance as *insurance*, and not as an investment or a speculation, should be clearly presented ; its great claims upon the public, and especially upon individuals who have families dependent upon them, and whose death would leave them without adequate support, should be forcibly urged, with a due regard to the circumstances of the individual and with perfect fidelity to the company. All information asked should be correctly given, for any questions will show that the listener is taking an interest in the subject, and all necessary explanations should be made, care being taken to go as little as possible into the technical part of the subject, unless the education and mental qualifications of the man are such that these things are interesting to him. Clearness and simplicity of diction and a quiet earnestness of manner are qualities most effective in producing conviction.

Arguments should be adapted to his Condition.

All arguments, appeals and illustrations should be adapted to the condition of the man the agent wishes to insure. It is folly to urge the same arguments upon a plain farmer which would be effectual with a wealthy merchant or prosperous banker, and *vice versa*. The former may want insurance at its cheapest rate, and is satisfied with that form which gives the greatest possible insurance with the least expenditure of money, while the latter, taking a business view of the case, may think of taking a policy simply as an investment.

There is hardly any subject or characteristic of life insurance which cannot be reasonably and clearly illustrated by fire insurance, and this is one of the easiest methods of meeting some of the common objections urged against it. If a party complains that the expenses of life companies are too great for the premiums paid, the agent can reply that the average expense of fire companies is thirty per cent., the dividends to stockholders is ten per cent., and only sixty per cent. of the premium is usually taken to pay the current losses during the year. If a man cannot understand why a company should require a premium larger than the annual cost of insurance and necessary expenses, the agent can state the matter as follows : Suppose a house is erected on a vacant lot far from any other

dwellings, and is insured against fire for ten years. At the end of one year a factory is set up on one side of it, a year or two after a mill is placed on another side, and in a short time the vicinity is built up with wooden buildings to such an extent that it is almost certain that the house will be consumed in a few years. Now if the owner of the house wants a uniform rate of premium during these years of increasing risk, then the premium of the first few years must be larger than is sufficient to carry the annual risk, in order to provide for the increased danger which is to come, and the company must set aside a sum each year which will be sufficient to save the company from loss, and pay the current expenses. In an insured life, the danger of death or loss to the company increases every year. According to the tables it is considered certain that every person will die at the age of 100 or less ; at the age of 39 the danger is about one per cent., at 54 it is two per cent., at 60 it is three per cent., and at 64 four per cent., and so on till we reach the age 99, when it is one hundred per cent. A uniform rate of premium through life makes it absolutely necessary, like the fire policy illustration given above, that the premium during the first few years, and the assumed interest thereon, should be large enough to make up for the additional risk of the future.

The agent should always be on the watch to discover what kind of arguments will have the most effect. To a farmer he might show how a policy on a life would pay off a mortgage on a farm, or provide a sufficient sum to give his children an ample education in case of his early death ; he might quote instances where this had been done, and show how small a sum of money was spent in keeping the policy in force. In soliciting a merchant, he might show that the rich merchants as a class do insure to very large amounts ; he might quote such names as A. T. Stewart, H. B. Claflin, Cyrus W. Field, and many others who have insurance to the amount of \$100,000 and over on their lives. To a lawyer he might show that his learning, experience and reputation were his "stock in trade," and by his sudden death so much money-producing ability would be destroyed.

Prepared to meet Objections.

To meet objections successfully the agent should be well posted as to individual facts, and should also have a good knowledge of the science. A variety of facts

illustrating the practical working of life insurance and the benefits it confers upon individuals, is often essential to meet objections and cavils. It is highly important that the agent should have a large number of instances stored in his mind, where the provident investment of a few dollars in a life policy was the means of saving a family from want ; and also be familiar with the leading statistics of life insurance. He should know very nearly how many companies there are in the United States, how many risks are in force, and their aggregate amount, how much is annually paid for premiums, losses and surplus returned. And when any one is disposed to sneer at life insurance, he can produce an array of facts and figures which will prove that it is one of the most important financial interests in the country. If an agent is told that life insurance is a humbug, let him ask the objector if it is probable that 800,000 persons would annually pay nearly \$90,000,000 for a humbug ? If he is told that it is a one-sided game, the agent can reply that in the year 1873 the life companies of this country paid to policy-holders and their heirs upward of \$50,000,000 in losses, endowments and dividends. There are however some of the more common objections, which cannot be disposed of in this summary manner.

Religious Scruples.

Some people are so superstitious or so ignorant that they have some religious scruples against insuring their lives. They think that there is something sacred in human life which should not be made the subject of a policy of insurance. It is regarded as almost as bad as man-stealing or dissecting a human corpse. All this proceeds from a wrong impression of what life insurance is. It is unfortunate that we have no word to express the true idea, which is : *Insurance of income-producing power.* A man is valuable in a financial view according to what he can earn, and it is this quality only which we insure. With this view we strip it of all its superstitious fancies, and make it a plain business transaction. It is not many years since some people had similar superstitious ideas about putting lightning-rods over their houses, barns and churches. If Providence designed that their buildings should be struck by lightning, it was considered wrong to attempt to turn it aside, and so now they think that if they are predestinated to leave their families in want and poverty they have no right to insure their lives to prevent it.

Is It Safe ?

It seems hardly necessary to go into an extended answer to the question, What is a safe business? There are thousands of clerks and salesmen in our large cities who are struggling to commence a mercantile life on their own responsibility, when the fact is that on an average ninety-five out of every hundred fail. There are thousands of men speculating in stocks in our large cities, and every few years a "Black Friday" comes, or a corner in some favorite stock, or they "go short on Harlem." And their fortunes melt away in an hour. The great fish have eaten up the little ones. Savings banks ought to be safe, but during the past few years a large number have failed, and in 1871 those which failed in New York city caused a loss of over \$500,000 to the depositors, and the panic was so great that over \$20,000,000 were drawn out of other savings banks and invested elsewhere. But during the last ten years there has been upward of \$100,000,000 paid for losses by our life insurance companies, and how much has been the actual cash loss to the policy-holders of those which have failed? Less than \$200,000, or one fifth of one per cent. on the losses paid. Can the objector mention any other kind of business as safe as this?

Rich Enough Already.

Is he absolutely sure that his family or those dependent upon him will always be so? Has he made a provision for them so ample and secure that a policy in a life company will add nothing to it? Up the marble steps of one of our life insurance offices an aged widow is sometimes seen ascending, as she enters to draw the periodical payment of an annuity which her husband was persuaded to purchase for her when he was a prominent and successful speculator in Wall Street. He was "rich enough already." He did not want anything to do with life insurance, and when he purchased this annuity, he half believed he was doing a foolish act which would be of no use to her, but now it is her only support. Most of our wealthy men do not believe that they are "rich enough" to do without life insurance. They are the most liberal patrons of our companies; they regard it as a safe investment, and a necessary protection.

In Debt.

It is a sad thing to live in debt, but that is not the worst that can happen to a man. While life remains there is some prospect of getting free from one's embarrassments, but death allows no remedy for the misfortunes of life. To die badly in debt, when all the property one may have accumulated will have to be sacrificed to pay the just claims of creditors, must be a sad prospect to contemplate. To such a man, life is a failure. But life insurance provides a remedy for this ; it allows a man to *hedge* or to protect himself from this disaster if he is wise in time, and to throw his burdens upon a company which is able and willing to bear them. When a man is badly in debt, and has no means of extricating himself immediately, life insurance is a duty, and he should provide means to get clear of his obligations as soon as possible. If he does not, he is defrauding his creditors. It is his duty to be honest with them, and posthumous honesty (if such an expression is admissible) is as important as any other. All this is provided for by a life insurance policy. Life enables him to throw it off by his own exertions, and if death comes before he is entirely successful, the company accomplishes the remainder.

The Money is needed for Business Purposes.

Some people think they can use their money at better advantage in business. Perhaps they can ; but as this is a matter of uncertainty, we will see what per cent. can be made in life insurance. A man aged 25 spends twenty dollars a year on a life policy of \$1,000. If he dies during the first year the profit is 5,000 per cent. If he pays ten premiums and gets no dividends or increased insurance, and then dies, his profits are 360 per cent., reckoning compound interest on his premiums at six per cent. Suppose he pays for twenty years, and the amount insured is increased by reversionary insurance to \$1,400, his premiums at six per cent. and compound interest will amount to nearly \$780, and he will make nearly 18 per cent. on his payments in case of death at this time. It is a matter of simple prudence, then, to spend some money in life insurance, even if it is taken from the regular business. Taking into consideration the protection which is offered by his policy, and the percentage of profit it would bring to his heirs in case of death, there is no

way of investing money which would yield greater returns.

The Money spent in paying other Death Claims is a Loss.

So is the money spent in paying policemen to protect our property, in paying for a city, State, and national government. For the money spent in this manner we get no returns, as when invested in stocks and bonds, but the money is not lost ; protection is purchased ; the sense of security to life and person and property is what we get in return. So in life insurance : a policy is a protection to some one against poverty and want, and so far it is a positive benefit to him who pays the annual premiums. But suppose the "death claim" should happen to arise from the objectors' own policy ; how then ?

No one Dependent upon Him.

This is not a natural condition for a man to be in. If this excuse is made in sincerity, it is a confession that the man is leading a selfish life, a sort of waif upon society. Such reasons are seldom made in earnest ; they are designed simply as excuses for not giving the subject attention. If he has parents who are living, and whose circumstances compel them to labor for a livelihood, then it would be an act of filial gratitude to have his life insured for their benefit. If their old age cannot be made free from care and labor by his life, it ought to be made free from want in case of his death. But this is not an honorable position to be in, nor one to be envied. Every honest and honorable young man looks forward to the time when he shall be able to have others dependent upon him for support, and life insurance will enable him to leave them free from want.

Some Other Time will do as well.

No, it will not ! Every succeeding year increases the rate of premium, and renders it more probable that the man may be rejected. The rates for a life policy in most of the mutual companies is about double at forty-six what they are at twenty-five, and at fifty-five they are three times as much. If a man ever intends to insure his own life, he should do it as soon as possible. "Some other time" the man may be killed by an accident, disease, or other mishap. No reliance can

be placed upon the future ; the force of the arguments now presented may pass away or be entirely forgotten. We have read of a place which is paved with good intentions, and we doubt not but good intentions in life insurance cover a large surface.

The Policy may Lapse.

A man should never take more insurance than he can pay for. If he cannot be tolerably sure of paying the premiums on \$10,000, let him try one of \$5,000 or less, and when his circumstances admit of it, the sum can be increased. This result can be avoided by taking that kind which will admit of a paid-up policy after a few years. If a policy-holder will adopt these three rules, there is little danger of his policy lapsing : *He should never take a larger policy than there is a reasonable prospect of his being able to carry ; he should choose that kind whose payments are most suited to his condition, and then let him resolve to keep the policy alive at all hazards.*

Reasons for insuring.

An agent should always act on the offensive if possible. It is not so much his duty to defend life insurance as to recommend it. Indeed, we do not know but any attack upon life insurance, as a method of providing against future calamity, should be met with silent contempt. It is so well known and so universal, that he who looks upon it as a humbug, and proclaims his opinion as such, confesses himself to be ignorant of one of the great financial organizations of the day. But when men bring up objections against life insurance, the best way is to assume the offensive immediately and give the objector all he can do to answer the arguments in its favor. Since the agent is convinced that he has the strongest side of the case, he should come outside of the walls and fight, and not be satisfied with merely defending himself behind breast-works.

For this reason we present a few of the most common arguments which may be used in favor of life insurance, leaving it for the agent to illustrate them by individual facts as he may see proper :

Life is uncertain. Every one knows that this is true as respects other persons than himself. It is easy for an agent to show him what per cent. is the tabular risk of his dying at a given age, and how this risk is in-

creasing every year. If some one apparently in good health and well known has suddenly died, such an illustration may make this argument very effective.

Unwise to defer. These old saws, "Be wise in time," "Delay not," "Procrastination is the thief of time," etc., are almost as ancient as the human language, and their universality and antiquity perhaps destroys their value ; but tell a man that on an average every year of delay adds to the cost of a policy, that the annual premium must be increased with the additional probability of death, and the agent has touched his pocket. According to all the calculations in use, the older a person becomes after the period of youth the greater the danger of death, and also the annual expense to pay the death claims of others. The sooner one insures, then, as a general rule, the less it will cost him.

Life insurance adds to the length of one's life. The Irishman who remained perfectly unconcerned when the ship was sinking, because he had just been insured, was right in theory, but wrong in the manner of application. Whatever makes a person free from care in regard to want and the support of his family, has a tendency to prolong life. Persons who are supported by annuities live much longer than the average of mankind ; the same is true of pensioners on the government, and also of those in private life who have no care for the future and whose habits of living are correct. Life insurance has the same effect ; it gives the assured a calm satisfaction that in case of his sudden death he has made provision for those who are dependent upon him, and just so far as life insurance produces this result, so far it tends to prolong his life.

Every man can leave his family free from want. Before fire insurance became universal, when a man's house burned down his neighbors used to contribute to enable him to rebuild and make up his loss ; but now he goes to his company, and it writes a check for the amount of insurance. How does this differ from the old method ? Simply thus : All who have policies in the same fire company made their contributions when they paid their premiums, and they entrust the money to the company till the fire takes place, and then the company pays the amount insured. In a life insurance company all the policy-holders mutually protect each other by paying a stipulated sum in advance for every thousand dollars of insurance they receive, and in case of the death of one of their number, their contributions having been made, the company pays the amount

insured over to the heirs of the deceased. Instead of having to contribute to the support of his family after he is dead, they make their contributions while he is living. There is no charity or benevolence in this ; it is simply a business matter for avoiding charity and benevolence. This is a privilege which every man can enjoy who begins when he is in good health. If life insurance ever becomes universal in this country, nearly all want and destitution will be confined to those who come from other lands where it is not so much practiced.

A policy is an immediate provision for one's family in case of death. A policy is a contract by which the company agrees to pay the sum insured on certain conditions—usually upon the death of the insured, or, in case of an endowment, the attaining of a certain age. When this takes place, the amount of insurance is realized. It is creating a contingent fortune out of a small annual premium. It is making a will and leaving the family a certain amount of money which the policy-holder has not got and never had.

This argument is so ably presented by Hon. Elizur Wright that we quote it in full.

"In the old order of things a man's estate or source of income, if of any considerable magnitude, was usually of such a nature that not much of it could be buried with him. It remained behind to nourish his heirs. But since the more general diffusion of knowledge and machinery has multiplied the men whose minds are solely their estates, and very productive ones too, the bread of the fatherless is too often buried with the father. And it is not the laborer's crust that is taken so suddenly from the child's mouth, but the provender of princes. The handle of a switch pointing a few degrees in a wrong direction may not only extinguish a constellation of the lights of society, but precipitate a score of families from affluence to destitution. Though material wealth has increased at equal pace with general knowledge, yet it is now the rule rather than the exception that young men set out in life with but very little. Their patrimony they have invested in mental culture. If they are to have families, they must either wait single till by their industry they have accumulated funds, or run the risk of leaving destitute the helpless beings whose support they have assumed. Here life insurance comes to their aid by guaranteeing at once, in case of death, a sufficient fund to sustain the widow and orphans. This it does in consideration of a moderate annual payment to be continued for a term of years, or for life. To the young man whose income is somewhat more than adequate to the unavoidable current expenses of a family, the life insurance company says, 'If Nature bids you marry, and only Poverty forbids, obey Nature and we will take care of Poverty. Do it now in your prime, and let the next generation inherit from you all the strength and genius which the best conditions will allow.' The savings bank says, 'No, my friend, the voice of Nature is premature and imprudent ; you

had better wait a few years—half a dozen at least.' So say all the other means and institutions for the accumulation of capital, and consequently leave the general happiness, not to speak of the good order and good morals of society, in the lurch. Life insurance possesses exclusively the power of creating at once an adequate provision against the destitution of dependents in case of death."

Life insurance enables one to provide for himself in old age. Next to leaving others dependent and in want, is to find one's self in that condition when the fires of youth and the strength of manhood have passed away.

"Is there any sadder sight to contemplate than that of a poor old man whose days of usefulness are over, one whose opportunities for making a fortune are past, and who, by want of foresight or by misfortunes, finds himself near the end of his journey and his life a perfect failure? His example is only a beacon to warn others of their danger. He is neither welcomed nor honored, nor hardly ever respected in good society; and when he has reached the end of his life he will depart without leaving anything for those who have in vain looked to him for a comfortable support. In his younger days he might have taken out an endowment policy, and the influence of such an act of forethought would have made him more careful as a business man, and the policy, when payable, would have placed him above the fear of want. Is there anything worse than this?

"Yes, there is one other picture more sad, more pitiable. It is that of a poor woman who in the helplessness of old age is left alone in the world. There are many such who have been reared in wealth and affluence, and during the greater part of their days have basked in the sunshine of prosperity. But death has entered her household and taken away her husband, the protector of her life, and her happy dream of wealth has been changed to the stern realities of poverty. Her husband, once reputed rich, died poor. His plans for amassing a fortune were not realized when the stern, unwelcome messenger came, and she found herself face to face with all the hardships and bitterness of poverty. No life insurance policy was at hand to gladden her sad heart, like an angel of joy in her affliction; her husband had not the time to attend to it, or the money to spare from his business, or the expenses of his establishment were too great, and life insurance was dismissed as unworthy of a thought."—*How to Die Rich.*

Money value of a policy. There is a certain class of men who may be induced to insure on the endowment plan, because there is a money value in a policy of this kind which is certain of being realized provided they survive the term of insurance. In this policy a large part of the premium is taken for the reserve, and by yearly accumulation it becomes equal to the sum assured. While furnishing insurance it may also be used as a security, or for the payment of debts. As this however is not often resorted to it should not be

presented except to those whose business may require them to make some such use of it.

A safe investment. There are over \$50,000,000 invested in the capital of the fire insurance companies operating in the city of New York, and their gross assets amount to over \$100,000,000. Every few years a great fire takes place which annihilates a few millions of stock, and the stockholders make up the deficiency. More than \$20,000,000 capital and \$40,000,000 including assets was destroyed by the Chicago fire, but that did not deter parties from coming forward and putting up an equal amount to make it good. They knew perfectly well that it was not an absolutely safe investment, but they took the risk and the profit into consideration. But all the unavoidable cash losses to policy-holders in life companies by failures in the United States has been less than one per cent. of the total fire insurance loss at Chicago. Taking these facts for a guide, which are mere examples and do not exhaust the subject, the ratio of safety between money paid to a life company and money invested in fire insurance stock is about two hundred to one.

Examples of our best financiers. Those who take the largest lines of insurance are our best financiers. They are men who understand the value of money and how to use it to the best advantage; they comprise our wealthiest merchants, bankers, and brokers, and not a few life insurance officers and agents. If there were a probability that life insurance would prove a bad investment, the latter class would be the first to find it out, but the fact is, there are scores of them in New York city alone who have their lives insured in sums from \$25,000 to \$100,000. It is not every doctor who will take his own medicine like this.

One Plan of Insurance.

Having learned what kind of insurance would probably be most acceptable to the party solicited, the agent should present only one kind for his consideration, unless he manifests a preference for some other. If an agent talks life, ten payment, and then endowment insurance, he will be apt to get the applicant so confused that he will not choose either. If the agent attempts to figure out with his pencil how half a dozen kinds will operate, how much he will have to pay for a certain term of years, the man will want to think the matter over a few weeks, and perhaps it will end in some more skillful agent getting him into another company. When

the agent has once made up his mind what plan is the most appropriate, *and most likely to be kept in force till all the premiums are paid*, he should hold his attention to that only ; but if the applicant desires some other kind, the agent should be careful to explain the difference between them, so that he may choose understandingly. As a general rule, men are so ignorant of life insurance that they take such kind of policies as are recommended to them by the agents. We hope the time will come when the different qualities will be well understood by the public, but until then, the honesty and faithfulness of the agent will be tested, for he is too apt to recommend those plans which bring the largest commissions, irrespective of the wants of the policy-holder.

Making out the Application.

At the proper time, when the applicant is sufficiently convinced, he should commence filling out the application, the agent affording him every assistance, but never, where it can possibly be avoided, writing a word of it himself. The agent should explain the different questions of the application and the reason why so many are asked. If a man was going to buy a farm and pay \$10,000 for it, and had no means of seeing it himself, but had to depend upon the opinions of another and the testimony of the owner, would he not be apt to ask a great many questions and insist upon their being answered definitely ? In this case the company agrees to pay \$10,000, more or less, for carrying this risk through life or any other period, and it is the company's duty in justice to the remaining policy-holders to have the fullest information. This application is the only guide which the medical examiner at the home office has of judging of the health of the party insured, and it is of the utmost importance that every part of it should be done as directed. All the blanks should be filled out with a clear and legible handwriting, and especial pains should be taken to write the proper names in full and correctly.

Medical Examinations.

The medical examination should follow as soon as possible after the application is signed. The applicant is usually a little impatient to know whether he is accepted or not. It creates a favorable impression to have the affair completed with no unnecessary delay.

The agent should remember that the commission is never secured till the policy is accepted and the premium paid, and that there are many chances of failure when the agent thinks it is perfectly safe. In the medical examination the agent has no right to intimate or suggest what the replies to any of the examiner's questions should be. He should not be present when the examination is made.

Delivering the Policy.

The policy should be delivered as soon as it is received by the agent. Delays are dangerous, for a policy-holder may change his mind and refuse to take it, in which case the medical examiner's fee, the expense of making the policy, and the agent's trouble, are entirely lost. The agent should receive the premium when he delivers the policy. If the premium is not ready he should retain the policy till it is, or make such arrangements for it as the company permits, so that it may be perfectly safe. Although policies say that the contract is not binding unless the premium is paid in advance, yet the courts have made so many decisions adverse to companies on this and other points of a similar nature, that it is very unsafe to run the risk, for in case the policy-holder should die shortly after the policy is delivered, and before the premium is paid, the company might be held liable for the loss on the ground that the agent had waived the payment of the premium for the present. (See Chapter XV.)

Semi-annual and Quarterly Premiums.

Semi-annual and quarterly premiums should be avoided if possible. The agent should not speak of the semi-annual or quarterly rates unless the applicant asks for them. They make from two to four times as much office work as annual rates, and the policies are much more liable to lapse. The policy-holder gets tired of paying premiums every few months, and finally concludes that as the quarterly or half-yearly premium is a small matter, it may as well be given up altogether. The agent too cannot come around every three or six months to collect a quarterly or half-yearly premium; the commission is too small and the policy-holder is neglected. This is the history of too many policies which encumber the registers of the companies, which otherwise would have been kept in force.

"Not Taken" Policies.

We come now to treat of a subject which is a great misfortune to many companies and a perfect disgrace to their agencies. The vast number of "not taken" policies which appear in our State reports shows that there is a fearful lack of correct business talent among agents. It looks bad for a company and still worse for an agency to have a large list. It shows that the agents have been trying to do a sensational business—that they are seeking to make a good show at the expense of the company.

In the great hurry to get applications, there is a neglect of securing the policy-holder after the policy is made. It is as much the duty of the agent to deliver the policy and secure the premium as it is to get the application, yet this part is often grossly neglected; the man is allowed to get tired of his bargain and finally concludes that he will not insure at all. In many companies from twenty to forty per cent. of the business is canceled as "not taken." This is unjust to the remaining policy-holders. Every policy with the medical examination and office labor and expense costs ten dollars or more, and if five thousand policies are written in a year, and one or two thousand are "not taken," here are ten or twenty thousand dollars of expenses put upon the remaining three or four thousand policy-holders, which must come out of their return surplus. Companies are greatly to blame for this state of things; they ought to require a reason of such an agent why his policies are "not taken," and find out whose fault it is. It would also be an improvement to make every policy-holder pay for his own medical examination, which is done in some companies; then one great source of expense would be removed and the applicant would feel himself somewhat under obligation to take the policy. Wherever this plan has been tried, it has had a signal success in diminishing the "not taken" policies.

Small Policies.

An agent should never despise small policies. If he commences with a stranger by talking to him of a \$10,000 policy, premium \$500 per annum, it is doubtful if he can persuade him to insure; but if he can succeed in getting him to insure for some amount, if it is not more than \$500 or \$1,000, and then fill out the application, leaving the sum blank, when it is ready to

be signed, the agent can tell him that this is rather a small amount for so much trouble, and that it ought to be about \$2,000 or \$5,000. Some of our largest companies have their policies average less than \$2,500 each, and by far the greatest number of policies are written for sums of \$1,000 or \$2,000.

Habits and Occupation.

Although the medical examiner is the final arbiter of the acceptance or rejection of a risk, yet there are some circumstances attending the occupation and habits of applicants which an agent should understand in order that he may recommend a risk intelligently, or know that it is one that the company will probably refuse. It is mortifying to an agent to spend a long time in securing a risk, and then to have it rejected at the home office, and still more to the applicant who has become convinced of the value of life insurance. The company is also put to some additional expense for the medical examiner's fee, which must be paid by the other policy-holders. It is practically impossible for the agent to be so well informed that he will wholly avoid making mistakes of this kind, yet there are a few plain and simple directions which will enable him to give a good practical estimate of the probability that an applicant will be accepted or rejected.

The age of the applicant has an important influence on the value of the risk. Children under five years of age are not proper subjects for insurance, as the mortality during this time is over fourteen per cent. One seventh of all children die before the age of five years, and the danger of dying before puberty is much greater than during the years immediately subsequent. The best risks are between the twenty-fifth and fortieth years, for during this time the influences of hereditary maladies are less to be dreaded and the system is best fitted to resist disease.

Agents should never attempt to insure persons addicted to intemperate habits, and even a reformed drunkard should be looked upon with suspicion, for his previous course may have sown the seeds of some fatal disease. According to the observations of Mr. Neison, of England, the rate of mortality among intemperate persons is fearfully high, unequaled by the results made on any other class of the population of the country. Between the ages 21 and 30, the mortality of this class is five times as great as that of the general community, and four times as great during the succeeding 20 years.

It is not deemed advisable to explain the influence or tendency of certain diseases upon the applicant, as this is in the province of the medical examiner, but the following remarks of Dr. Allen upon the influence of different occupations on the health, are interesting and important to agents:*

Professional Men.—Teachers exhibit the greatest longevity. Next come clergymen, who are subject to few diseases save those incident to sedentary habits. Contrary to the vulgar opinion they are not more liable than others to pulmonary affections. Dyspepsia with its incidents is their principal affection. Lawyers rank next. Then professional lecturers, and next physicians. Of the latter it may be said as a class they have not the ordinary expectation of life by from one third to one fifth subtraction; nevertheless, the variety of exposure and habits is such that each case requires isolated investigation.

Artists.—Painters and sculptors rank among the best risks, particularly when the former sketch from nature and the latter merely model. Portrait painters and sculptors who cut marble themselves are not good risks. Photographers and daguerreotypists rank second class.

Artisans and Mechanics.—Painters using lead and oils are undesirable risks, yet need not be wholly rejected. Workers in phosphorus and quicksilver stand upon the same level. Stone-cutters and millers, and similar occupations where insoluble or irritant particles find constant access to the pulmonary surface, are less desirable, but improved methods of ventilation now in vogue render them less objectionable than formerly. Glass-blowers are poor risks. Compositors in printing-houses signally demand caution in acceptance. Blacksmiths, furnace men, carpenters, coopers and cabinet makers range among the most healthy operatives. Shoemakers and harness-makers, mainly from their sedentary habits, are second-class risks. The same remark may be made of tailors. Butchers and market-men, aside from the chances of accident, (to the former particularly,) are good risks. Machinists, plumbers, tinsmiths, tallow-chandlers and barbers, and similar occupations, are good risks. Engravers, jewelers and the like, are liable to the diseases of sedentary life, but are otherwise unobjectionable. Brewers, confectioners, dyers, hatters, bakers, and others whose business involves constant exposure to warm vapors, often impregnated with medicinal or poisonous substances, are not as desirable. Chemists, assayers, gilders, tobacconists, etc., are liable to the same objections. Day laborers, unless exposed to accidents, are equally good risks as mechanics. Agricultural laborers in salubrious localities are the highest order of desirable applicants.

The best lives, other things being equal, are those of persons engaged in out door and yet protected employments, where the occupation is somewhat sedentary, and yet combined with a certain amount of muscular exercise, with pure air and variation enough to secure a stimulating impression upon the system. Inertia, indolence, and absolute uniformity of meteorological influences, are as prejudicial as over-exertion and atmospheric vicissitudes.

* Medical Examinations for Life Insurance, by James Allen, M.D., LL.D.

CHAPTER XII.

THE POLICY-HOLDER.

The Agent's Friend and Assistant.

HAVING once insured a man and delivered the policy, the agent should make all possible use of him to get more business. The insured usually feels that he has made a good bargain, and is anxious that others should have the same benefits. The business of life insurance is such that there is no danger of a well-managed company having too many policy-holders, and those who are insured cannot monopolize its advantages to the detriment of new members. The agent should show the policy-holder that his insurance will be cheaper and that the ratio of expenses will be lessened by having the number of members increased. The new policy-holder can introduce the agent to his friends, and by his example and presence can often influence some of them to insure. If the agent is a stranger the policy-holder can give him valuable information as to what their circumstances are, about how large policies they would probably take, and what their ideas are about life insurance, so that the ground is all mapped out beforehand. The agent should always bear in mind that he should take advantage of every favorable opportunity to press the claims of his company. If the new policy-holder is a well-known, influential man, he can be referred to by the agent. The fact that Mr. A. or B. has insured will often determine C. and D.

Policies should not be allowed to lapse.

The greatest number of policies lapse at the end of or during the first year, and the general experience of companies is that the longer a policy is kept in force, the more likely it will be, till maturity. Hence it is of great importance that the policy-holder should pay the first three or four premiums regularly, and after that their continuance is tolerably sure. The agent should be prompt in collecting renewal premiums, the notices of payment should be sent some weeks in advance, and

it may be advisable for him to call upon the policy-holder for his premium. This is a good opportunity of asking him to take additional insurance, or inquiring if some of his friends can be persuaded to insure. In collecting premiums the agent should be guided strictly by the rules of the company, declining to take one too long overdue unless a certificate of good health is given. If the insured is dissatisfied with anything connected with the company, care should be taken to set him right. For this purpose the agent should have some printed statement of the yearly report of the company, or some leaflet of a statistical nature, adapted to meet his case. Both officers and agents should take the greatest pains to keep the policies of the company in force. One policy which lasts twelve years is much better for the company, and far less expensive, than four policies which last only three years each.*

The officers of companies are often greatly to blame for the number of lapses on their books; their constant cry is, "Get new business, for that is the prevailing criterion of the prosperity of the company." It is not the new policies taken, whose first premiums are almost wholly eaten up in commissions and expenses, which add to the strength and increase the assets of the company, so much as the renewals collected for a series of years at a small percentage. In another part of this book (Chapter XIII.) we have shown that there is little or no benefit derived by the company from the lapsing of a policy during the first two or three years, but on the contrary, a lapsed policy is a positive damage—it gives it a bad reputation ; agents look at the State reports and see the number, twenty, thirty, or perhaps fifty to eighty per cent. of the new business falling away; they know that so large a ratio of policies would not lapse without some good reason ; they conclude that there is dissatisfaction with the dividends, or the officers or agents have made promises which have not been realized.

To remedy this, a systematic effort should be made by every company to find out why each policy lapses. If the company is to blame, then this evil can be corrected in the home office; if the policy-holder is unfortunate in his financial affairs, then he should have an extension of time, if the case will warrant it. Companies will find it for their interest to spend more time in

* Suppose a policy has a premium of \$100, and the commissions and initial expenses are 40 and the renewals 5 per cent. One policy kept in force twelve years would cost the company \$95, but four policies of three years each would cost \$200.

looking after their old business, and keeping it in force. There are some companies which have taken an immense number of new policies during the past few years, but their total amount at risk and their assets have increased very little. If one half the commissions spent in procuring new policies had been judiciously used in keeping the old ones alive, these companies would have had a larger number in force, and be in a more prosperous condition.

Too Much Insurance a Cause of Lapse.

Agents often induce a man to take more insurance than he is able to sustain. He pays the first and perhaps the second and third premium, and then by some reverse of fortune he finds that his load is heavier than he can bear. He finds that he has over-estimated his ability to pay the premiums, and now he is in great danger of losing all. Had he taken two policies, each for one half the amount, he might have obtained a paid-up policy or surrender value for one and still keep the other in force. In this, as in other cases, it is for the interest of the agent to insure the policy-holder *so that he will stay insured.*

Settlement of Claims.

This is a part of the agent's duty, and if properly performed it may be the means of bringing him considerable business. When a policy-holder belonging to his company dies, if residing within the jurisdiction of his agency, he should lose no time in having the proofs of death correctly prepared and forwarded to the home office. This should be done at the earliest convenient date, for the widow or friends of the deceased seldom know the proper steps to be taken, and the claim will not be paid till a certain number of days after the proofs of death, prepared in a proper manner, are sent to the company.

The agent should take an early opportunity to communicate with the heirs of the deceased and assure them that they have his sympathy in their affliction and that he will take the entire trouble and responsibility of collecting and paying over the amount due on the policy. An offer of this kind can be made, if rightly managed, without appearing officious or wounding the feelings of any one, and the agent will generally find the friends of the deceased very grateful for his proffered kindness.

It is needless to state that such a course will make the agent favorably known in the community, and that the advantages of life insurance should be pressed upon all who are disposed to listen. An opportunity of this kind, rightly improved, may be the means of reaping an annual harvest of premiums each equal to the amount of the claim.



CHAPTER XIII.

SURRENDER VALUES AND PAID-UP POLICIES.

ONE of the most fruitful sources of dissatisfaction among policy-holders at the present day is the disappointment experienced in not obtaining from the companies what they consider a just and equitable surrender value for their policies. When the insured has paid a number of premiums on his policy, and is unwilling or unable for any reasons to keep it in force, he generally expects the company will return to him a large part of the amount which he has paid, or convert it into paid-up insurance. Very few policy-holders stop to consider whether their payments have been all cash, or part note or loan ; and they think they are just as much entitled to a liberal surrender value in the latter case as in the former. In nearly every instance the advertising pamphlets of the company promise to give an "equitable surrender value" for a policy, after two or more payments ; they represent that all policies are non-forfeitable, and agents in setting forth the merits of their companies are apt to make more liberal promises than their companies can afford to fulfill.

Fire insurance companies have short-term rates which are used in computing the surrender value of an unexpired fire policy, and a property owner in giving up an unexpired policy of insurance on a building, has only to present it to the office and receive the unearned premiums less a surrender charge. So in life insurance, if one is carrying an all cash life or endowment policy, his ideas of equity, independently of what the company and its agents say, teach him that there is a large part of the premiums which he has paid into the company from which he has not received any benefit, and he thinks the company is taking an unfair advantage of his misfortunes if it does not liberally respond to his request for a surrender value. In some instances these views are correct, and it is probable that some companies do fail to return to the lapsing policy-holder all the unearned premiums they can afford to, and yet there is a limit in this matter known only to each company, beyond which it cannot go without damaging the interests of the remaining members,

who constitute the great majority, who pay their premiums promptly, and whose interests are equally entitled to protection.

In order to enlighten the public and to explain to agents and the insured how far a company is justified, with a due regard to the remaining members, in paying cash surrender values on policies which are discontinued, we shall undertake a short discussion of this subject.

We may remark that our reasoning does not directly apply to those few companies which have a clause in their policies guaranteeing to their policy-holders a fixed surrender value after a certain number of premiums have been paid. The insured, accepting the policy, accepts these conditions, knowing just what he can depend upon, so there is no room for misunderstanding.

Actual and Tabular Cost of Insurance.

And just here we wish to make some explanations which the reader will probably need in perusing this chapter. The term, "cost of insurance," which is used, means simply the *tabular* or *theoretical* cost, according to the mortality tables and rate of interest, and not the *actual* cost which the company has to meet while carrying a risk. To illustrate the difference between these, a man gets his house insured for one year by paying a premium of \$100. This is as low as the company can afford and pay all the working expenses. But how is this \$100 spent by the company? Sixty dollars is used in paying losses on other buildings; this is the tabular or theoretical "cost of insurance;" \$30 goes to pay agents' commissions and office expenses, and \$10 is the dividend or profit on stock. In order to get his house insured the man must pay \$40 more than the tabular cost of insurance.

In life insurance there is the same distinction between the *net* or *tabular* cost and the *actual* cost of insurance. The net cost is given in the tables ; it can be computed to the nearest mill, but the actual cost cannot be determined beforehand ; it includes the average expense which the company has to bear in keeping the company alive as a working organization. A life as well as a fire insurance company must incur expenses, such as salaries, office rent, commissions, printing, etc., and these must come from the policy-holders. This should not be regarded as a hardship unless the expenses are extravagant ; it is one of the conditions of enjoying the protection which the policy-holder pays for.

Net Values and Surrender Values.

Nor is the "net value" of a policy the same as the "surrender value," as will be seen by the illustrations of this chapter. The net value is that part of the premiums which the company must have on hand in order to comply with the State laws respecting solvency, but the surrender value is what the company can afford to pay in order to be released from the bargain it has made with the policy-holder, and is usually somewhat less than the tabular or net value.

Smith, a stock broker, contracts with Brown, a banker, to receive of the latter one hundred shares of a certain railroad stock every January 1st for ten years at 65 cents on a dollar. But each successive year the stock falls two per cent., and at the end of four years Smith wants to be released ; he has made a bad bargain and can get the stock cheaper elsewhere. Brown says, "No, the stock is now at 57, and it will probably go down to 45. If it had taken an upward course to 73, I should have lost as much as you have. I cannot let you off and return to you the money you have paid, unless I deduct from it the present value of all the future profits I am likely to make, that is, make a surrender charge large enough to save me from loss."

Now substitute the word "policy-holder" for Smith, and "life company" for Brown, and "life insurance" for railroad stock, and see how this illustration will read. Policy-holder agrees to pay a certain price to the company for a definite amount of insurance for life or a series of years. The man is a "good risk," and the company has the prospect of making the best of the bargain. The company sees that it is going to profit by this policy and that there are others which will in all probability make them considerable loss, and therefore the company cannot in justice to the other members let him off without making him pay the present value of the loss the rest would probably incur by his going out of the company. If the risk had been a bad one and a loss had occurred, the heirs of the insured would have gained nearly the whole amount of the policy, and it is unfair that the advantage should be all on one side. It is evident then that *net value* and *surrender value* are two very different things.

What is a Policy of Life Insurance ?

A life insurance policy is a contract between the assured and the company, whereby, in consideration of

certain representations made in the application, and which is a part of the contract, and in consideration also of the premiums paid and promised to be paid thereafter as they may become due, the company agrees, on certain conditions, to pay the full amount of the policy when it becomes a claim. The fundamental condition is the payment of premiums when they become due. Of the two parties which make a contract, the party which breaks it is the one which should suffer any damage or loss, especially when the other party is ready to fulfill its part of the agreement. If the company can show that it has been damaged by the neglect or refusal of the insured to pay the regular premium as he stipulated, there is no reason in law why the injury inflicted on the company should not be made good. In practice, however, the policy-holder is never called upon to pay damages for not keeping his policy in force, for, except in case of term policies, the company has a reserve or unearned portion of the premiums on hand with which it can indemnify itself. How far the company should take advantage of the means in its possession to recompense itself for any loss it may sustain by the lapsing of a policy, is a topic which will be considered hereafter.

Payment of Surrender Values now generally adopted.

The idea of paying surrender values is comparatively a modern one. It is not many years since the great Dr. Farr of England proposed a scheme in which every policy-holder in a certain company should be at liberty to reclaim at any moment a certain portion of the premiums he had paid on a policy. Previous to this time, as in a few companies at the present day, the failure to pay the premium on the day specified, caused an entire forfeiture of the policy. In the year 1861, Hon. Elizur Wright succeeded in getting his celebrated non-forfeiture law through the Massachusetts legislature, and although this does not provide for a cash surrender value, it compels the companies of that State to continue the policy in force as a paid-up temporary insurance as long as four fifths of the reserve will sustain it, the policy being subject to the diminution of the unpaid premiums in case of death before the temporary insurance expires. Since the time when this law was passed, there has been a general understanding among the companies that the policy-holder is entitled to a surrender value, provided there is any cash reserve left after making a sufficient surrender charge.

No company would dare to advertise itself now as never paying a surrender value when a policy lapses, for the intelligent public know perfectly well that one should be given if the company can afford it. In the case of "tontine dividend policies," this feature is expressly waived.

In deciding what surrender value should be paid on a policy, every company is a law unto itself, just as much as in the regulation of the annual premiums. Hardly any two companies have the same rules for determining the surrender value, and there are but few in which there is any fixed standard of computing it. Taking up the New York Insurance Report for 1868, we find the following replies to question ninth, which reads thus: "What proportion of the net present value of a policy (calculated on the company's assumptions of mortality and interest) is given as a surrender value?" The replies of most of the New York companies are such as these: "No fixed rule as yet;" "Seventy-five per cent.;" "Usually from seventy-five per cent. to the whole;" "About the face;" "Thirty-three to seventy-five per cent.;" "The whole less a margin for expenses;" "One-half;" "Variable;" "Discretionary;" "Varied by circumstances;" "Variable but equitable," and so forth.

The argument which is relied upon to justify the making of a surrender charge of one third or one fourth of the reserve is that the payment of a surrender value and the lapsing of premiums withdraws the funds of the company which would be available in the payment of losses, and diminishes its future profits. The payment of claims when they occur is the legitimate business of a company; all other things, such as dividends and surrender values, are merely subsidiary matters. Until the discovery and general adoption of a better rule for a surrender charge, this one of a percentage on the reserves will be the one generally adopted. While accepting this rule in the following illustrations, we do not indorse its want of equity or its injustice in making the policy-holder pay the more for a surrender charge the longer he remains in the company. On the principle that the company should charge enough to pay the expense of obtaining another equally good risk, it would seem that the longer the policy-holder paid his premiums and the more the danger of death increased, the easier the company should be in letting him off; but that view, we are sorry to say, is not generally entertained. No just and feasible method of computing surrender values has

come into general use, and there is hardly anything in the management of companies about which there is a greater want of harmony than this.

It is easy to see, from the list of answers given above, that the officers of every company either adopt their own rules for determining the surrender value of policies or decide upon the merits of each case, and yet in justice to them it is proper to add here that the surrender value is often modified very much by the condition of the insured : if he is in poor health, (the kind which are not apt to allow their policies to lapse,) then the company can afford to give a larger surrender value, in order to avoid paying the full amount of the policy in the probable event of death, than if his physical condition were perfectly sound. When a man of robust health is insured for life or a term of years in a company, he is expected to contribute his share to pay the expenses and the losses which are continually occurring, and in this manner he pays for the protection which he enjoys. If he fails to pay his premiums, the company does not obtain what it would have gained had he remained faithful to his contract, and besides, it incurs an increased ratio of mortality.

Why Companies cannot pay the Whole of the Reserve as a Surrender Value.

Suppose a company consisted of two thousand members, and on a certain day, after the policies had been in force a few years, one thousand of them, the healthiest and soundest, should demand and receive the full amount of reserves and dividends declared thereon as surrender values, it is plain that such a course would greatly increase the future average mortality of the company. When these persons insured they openly or tacitly agreed to abide by the company till their policies became claims; their retirement has injuriously affected the interests of the persistent members, and in order to do justice to all parties, it will be necessary for the company to retain so much of the reserve as will indemnify it for the increased rate of mortality occasioned by their leaving the company. If the ratio of mortality to the assets is increased by paying the full amount of the reserve as a surrender value, it is certain that the result will be felt in the decreased dividends or return surplus to the remaining policy-holders. Nothing is plainer in life assurance than if the insured want extensive privileges, and permission to go and come when they please, they must pay for these advantages.

The so-called "liberal features," and a generous disposition on the part of a company to favor those who withdraw, means nothing else than taking Peter's money to pay for accommodating Paul. It is stated on good authority that some English companies, which have been extra liberal in paying surrender values, have been compelled to refrain from distributing any surplus for several years, although their investments have yielded a larger rate of interest than was assumed in the computation of the premiums.

Suppose we have two policy-holders insured for \$1,000 each on the whole life plan, and each at thirty-four years of age, and that the vitality and health of one of them is one fourth greater than the average, that is, while the average expectation of life at this age is thirty-two years, the healthiest one has a fair prospect of living forty years; then he would be expected to pay eight more premiums on his policy, and the payment of his claim would be deferred for eight years. At the end of two years both policies lapse. The present value of these eight future premiums expected from the latter policy-holder at four per cent. discount, and at the date of the lapsing of his policy, would be \$38.37. But if the payment of the claim of \$1,000 is postponed eight years, the present value of the annual interest of \$70 for eight years, computed at seven per cent., would be \$49.76, making a loss to the company on this policy of \$86.33. In the other case, where the insured was of only average health and vitality, we have supposed that the company would not have lost or made anything. If the excess of vitality in the healthier person was only four years, the loss to the company by lapse would be \$47.89. Now the company having insured these men of more than average vitality, is entitled to all that can be gained, else how could it pay the early losses? Is it not clear then that a lapsing policy-holder, if in good health, would throw an additional burden upon the rest if he should be permitted to withdraw the whole of his reserve as a surrender value?

Practical Illustrations.

In order to illustrate this subject more intelligently, and to show how far a company is justified in paying a surrender value, let us examine the nature of a premium and its relation to the insured.

A man aged forty insures on the ordinary life plan for \$1,000. the office premium is \$31.30, the net annual premium according to the combined experience table of mortality, and four per cent.

interest, is \$23.68. For the first three years the reserve interest and cost of insurance will be as follows :

FIRST YEAR—Net premium.	.. . . .	\$23.68
Interest four per cent.	.. . . .	.94

Cost of Insurance,	.. . . .	\$24.62
		10.21
Reserve,	.. . . .	\$14.41
SECOND YEAR—Net premium,	.. . . .	23.68

		\$38.09
Interest four per cent.,	.. . . .	1.52

Cost of Insurance,	.. . . .	\$39.61
		10.30
Reserve,	.. . . .	\$29.31
THIRD YEAR—Net premium,	.. . . .	23.68

		\$52.99
Interest,	.. . . .	2.12

Cost of Insurance,	.. . . .	\$55.11
		10.41
Reserve,	.. . . .	\$44.70

Here are \$44.70 of unearned premiums in the hands of the company. There is also the loading 31.30—23.68 = 7.62, and this for three years is \$22.86. This item is left out of consideration, as it is used for defraying expenses and returned as surplus.

We have already shown that if the insured has more than average vitality the whole of the reserve cannot be paid as a surrender value without affecting the interests of the remaining policy-holders, and that the damage done to the company by the lapsing of a policy amounts to about eleven or twelve dollars for every year which he would have lived longer than the average of policy-holders. Suppose that 75 per cent. of the reserve is the rule adopted by the company, it will amount in this case to \$33.53, leaving \$11.17 to recompense the company for what it has lost.

There is another source of loss which we have not alluded to—what the company would have gained from the insured toward paying the expenses of the company other than the commissions. Reckoning one per cent. on the gross premiums as the amount he would have contributed toward meeting the general expenses of the company we have another item of \$4.81. Putting both of these items together, we see very clearly that a company cannot pay the entire reserve as a surrender value without infringing upon the interests of the remaining members.

Why Companies cannot pay a Surrender Value at the End of the First Year.

Many persons are disposed to criticise the conduct of life insurance companies because they do not pay surrender values at the end of the first year of a policy. It is easy to illustrate why this is practically impossible, except in case of short-term endowments and ten-premium life policies.

Ordinary life policy issued at 40, for \$1,000, premium \$31.30.

	Dr.	Cr.
Gross premium		\$31.30
Commissions 25 per cent.	\$7.82	
Medical examination and office expenses 10.00	<hr/>	17.82
		<hr/>
		\$13.48
Interest 6 per cent. . . . .		.81
		<hr/>
		\$14.29
Cost of insurance		10.21
		<hr/>
		\$4.08
Surrender charge of 25 per cent. of reserve		3.60
		<hr/>
Balance in the hands of the company		.48

The surrender charge of 25 per cent. on the reserve is as low as the most liberal companies adopt, many companies charging 50 per cent., and the item for medical examination and office expenses is as low as the experience of the most prosperous and economical companies will justify. It is clear from this illustration that there is no money made by the company on a whole life policy which lapses at the end of the first year.

	Dr.	Cr.
SECOND YEAR—Gross premium	\$31.30	
Commissions five per cent.	1.56	\$29.74
Balance previous year		4.08
		<hr/>
Cash at beginning of the year.		\$33.82
Interest at six per cent		2.03
		<hr/>
		\$35.85
Cost of insurance		10.30
		<hr/>
Cash on hand		\$25.55
Surrender charge 25 per cent. of reserve		7.32
		<hr/>
Surrender value		\$18.23
Which is about 62 per cent. of the reserve.		

	Dr.	Cr.
THIRD YEAR—Gross premium.	\$31.30	
Commissions five per cent.	1.56	\$29.74
Balance previous year		25.55
		<hr/>
Amount		\$55.29

Amount—(continued from last page)	\$55.29
Interest six per cent.	3.31

Cost of Insurance	\$58.60
	10.41

Cash on hand	\$48.19
Surrender charge	11.17
Surrender value	37.02

Suppose 40 per cent. credit to be given by the company on the premium the statement will be as follows :

	Dr.	Cr.
FIRST YEAR —Gross premium,	\$31.30	
Credit 40 per cent.	\$12.52	
Commission,	7.82	
Medical ex. and office expenses,	\$10.00	
Interest on note, six per cent. . . . .	.75	

	\$30.34	\$32.05
Difference,		\$1.71
Interest, . . . . .		.10

Cr. end of the year,		\$1.81
Cost of Insurance,	10.21	
Balance against the company,	8.40	
Surrender charge,	3.60	

Deficiency,	\$12.00	
SECOND YEAR —Gross premium,	\$31.30	
Credit 40 per cent., -	\$12.52	
Commissions five per cent.,	1.56	
Balance against the company,	8.40	
Interest on two notes,	1.50	

	\$22.48	\$32.80

Interest,		\$10.32
		.62

Cash beginning of year,		\$10.92
Cost of insurance,	\$10.30	
Cash on hand, end of year . . . . .		.62
Surrender charge,	7.33	
Deficiency,	6.71	
THIRD YEAR —Gross premium,	\$31.30	
Credit four per cent.,	\$12.52	
Commissions,	1.56	
Balance last year, . . . . .		.62

	\$14.08	\$31.92

Cash beginning of year,		\$17.84
Interest on reserves,		1.07
Interest on three notes,		2.25

Cost of Insurance,	\$10.41	
Cash on hand,		10.75
Surrender charge,	11.17	
Deficiency, . . . . .	.42	

It is clear from these last illustrations that parties insured, who have received credit for a large part of their premiums, cannot reasonably expect any surrender value in cash for their whole life policies.

The relation which a premium note or loan holds to the policy is not generally understood by the insured when he wants a surrender value. After paying several premiums, one half or 40 per cent. on credit, the policy-holder concludes he will get the surrender value of his policy and give it up. He writes to the company or its agent and is informed that there is no surrender value in excess of the notes or loans on the policy. He instantly concludes that he has been swindled ; that life insurance companies were made for the purpose of receiving and not paying out money, and perhaps he takes his revenge by denouncing the company through the press. He does not know that by paying only one half or sixty per cent. cash he has obtained his insurance at just about the actual cost—perhaps a trifle below it ; that the notes given for premiums represent the reserve, good as an investment and as an interest-bearing asset, although they are of no use to pay the losses of another policy-holder, and so in fact the company has been loaning *him* the money represented by these notes, and that all this time he has been in debt to the company to the amount of these notes.

This is not intended as a defense of the note or loan system ; it is simply an explanation of what it is. A good thing misunderstood is often no better than a bad thing understood. If the policy-holder will only bear in mind that the note or loan is *so much of the final payment of the policy*, whether surrender value, paid-up insurance, or death claim, and advanced by the company to the insured, the rest will be perfectly clear.

This view of the subject also shows us why it is necessary to have the policy-holder keep up the payment of the interest on the notes of a paid-up policy until they are cancelled by dividends if any are allowed.

Ten Annual Life and Endowment Policies.

Surrender values are not so frequently demanded on these classes of policies, for the reason that paid-up policies are usually given after two annual payments have been made. In a paid-up policy the insured knows he gets a definite amount of insurance for his money, but in accepting a promise of a surrender value he is not so certain.

As a much larger premium is required on this class of policies it is more likely that they will have a surrender value at the end of the first year, especially in short term endowments.

Ten Annual Life Policy—Age 40—\$1,000.

	Dr.	Cr.
FIRST YEAR—Gross premium,		\$59.09
Commission 25 per cent.,	\$14.77	
Med. ex. and office expenses,	10.00	24.77
		<hr/>
		\$34.32
Interest six per cent.,		2.06
		<hr/>
		\$36.38
Cost of insurance,	9.95	
Cash on hand,		26.43
Surrender charge,	9.82	
Surrender value,		16.61
Three fourths of the reserve is \$29.45.		
SECOND YEAR—Gross premium,		\$59.09
Commissions five per cent.,	\$2.95	
Cash on hand last year,		26.43
		<hr/>
	\$2.95	\$85.52
Balance,		82.57
Interest six per cent.,		4.95
		<hr/>
		\$87.52
Cost of insurance,	9.76	
Cash on hand,		\$77.76
Surrender charge,	20.07	
		<hr/>
Surrender value,		\$57.69
Three fourths of the reserve is \$60.22.		
THIRD YEAR—Gross premium		\$59.09
Commissions, 5 per cent.	\$2.95	
Cash on hand last year		77.76
		<hr/>
	\$2.95	\$136.85
Balance		133.90
Interest six per cent.		8.03
		<hr/>
		\$141.93
Cost of insurance	9.55	
Cash on hand		132.38
Surrender charge	30.80	
		<hr/>
Surrender value		\$101.58
Three fourths of the reserve is \$92.40.		

The same with 40 per Cent. Credit given.

	Dr.	Cr.
FIRST YEAR—Gross premium		\$59.09
Credit 40 per cent.	\$23.64	
Commissions 25 per cent.	14.77	
Medical examination, etc.	10.00	
Interest on note in advance, six per cent.		1.42
		<hr/>
	\$48.41	\$60.51
Balance		12.10

Balance—(continued from last page.)		\$12.10
Interest . . . . .	.73	
Credit end of the year	12.83	
Cost of insurance	9.95	
Cash on hand	2.88	
Surrender charge	9.82	
Deficiency	6.94	
Three fourths of the reserve would be \$29.45.		
SECOND YEAR—Gross premium	\$59.09	
Credit four per cent.	\$23.64	
Commissions five per cent.	2.95	
Interest on two notes in advance	2.84	
Cash on hand last year	2.88	
	<hr/>	<hr/>
	\$26.59	\$64.81
Balance.	38.22	
Interest six per cent..	2.29	
	<hr/>	<hr/>
Credit end of the year	\$40.51	
Cost of insurance.	9.76	
	<hr/>	<hr/>
Cash on hand	\$30.75	
Surrender charge	20.07	
Surrender value	10.68	
	<hr/>	<hr/>
THIRD YEAR—Gross premium.	\$59.09	
Credit 40 per cent..	\$23.64	
Commissions.	2.95	
Interest on three notes in advance	4.26	
Cash on hand last year	30.75	
	<hr/>	<hr/>
	\$26.59	\$94.10
Balance.	67.51	
Interest six per cent..	4.05	
	<hr/>	<hr/>
Credit end of the year	71.56	
Cost of insurance	9.55	
Cash on hand	62.01	
Surrender charge.	30.80	
Surrender value	31.21	

In the case of a ten year life policy, after two annual premiums have been paid, the company generally agrees to give a paid-up life policy of \$200 on a policy of \$1,000. This at the age 42 would demand a single net premium (Combined Experience four per cent.) of \$79.84, or a mutual premium of \$87.82, while all the money the company has to meet this, according to the above calculations and without deducting the surrender charge, is \$76.48. After three annual payments we have the single net premium of \$300 = \$122.61, and a mutual rate is \$134.87, while the cash on hand to meet this obligation is \$130.45.

In these cases the company is as much entitled to a surrender charge as when paying cash surrender values.

From these illustrations it is easy to see that the company does not make anything in this class during the first three years, by giving paid-up policies of as

many hundred dollars as there have been premiums paid on a policy of \$1,000. In fact it is a loss to the company, while, like many other features, it is submitted to in order to promote a feeling of confidence and satisfaction among the retiring members.

Ten Year Endowment—Age 40—\$1,000.

	Dr.	Cr.
FIRST YEAR —Gross premium, . . . ,		\$106.90
Commission 25 per cent., . . .	\$26.73	
Medical examination, etc., . . .	10.00	
	<hr/>	
	\$36.73	70.17
Interest six per cent.,		4.21
Credit end of the year,		<hr/> \$74.88
Cost of insurance,	9.54	
Cash on hand end of the year, . .		64.84
Surrender charge,	19.92	
Surrender value		44.92
Which is about 56 per cent. of the reserve.		
SECOND YEAR —Gross premium, . . . ,		\$106.90
Commissions five per cent., . . .	\$5.35	
Cash on hand last year,		64.84
	<hr/>	
	\$5.35	\$171.74
Balance ,		166.39
Interest six per cent.,		<hr/> 9.98
Credit end of the year,		\$176.37
Cost of insurance,	8.88	
	<hr/>	
Cash on hand,		\$167.49
Surrender charge,	40.79	
Surrender value,		126.70
Three fourths of the reserve is \$122.37.		
THIRD YEAR —Gross premium, . . . ,		\$106.90
Commission	\$5.35	
Cash on hand last year		167.49
	<hr/>	
	\$5.35	\$274.39
Balance		269.04
Interest six per cent..		<hr/> 16.14
Credit end of the year		\$285.18
Cost of insurance	8.16	
	<hr/>	
Cash on hand end of the year. . .		\$277.02
Surrender charge	62.68	
Surrender value.		214.34
Three fourths of the reserve is \$188.04.		

Ten Year Endowment, 40 per cent. credit.

	Dr.	Cr.
FIRST YEAR —Gross premium		\$106.90
Credit 40 per cent.	\$42.76	
Commissions.	26.73	
Medical examination and expenses 10.00		
Interest on note in advance		2.56
	<hr/>	
	\$79.49	\$109.46

(Continued from last page.)

	Dr.	Cr.
Balance.		\$29.97
Interest 6 per cent.		1.80
 Credit end of the year		<u>\$31.77</u>
Cost of insurance	9.54	
Cash on hand.		22.23
Surrender charge	19.92	
Surrender value.		2.31
SECOND YEAR—Gross premium		\$106.90
Credit	\$42.76	
Commission	5.35	
Interest on two notes in advance		5.12
Cash on hand last year		22.23
	<u> </u>	<u> </u>
	\$48.11	\$134.25
Balance.		86.14
Interest		5.17
 Credit end of the year		<u>\$91.31</u>
Cost of insurance	8.88	
 Cash on hand		<u>\$82.43</u>
Surrender charge	40.79	
Surrender value		41.64
THIRD YEAR—Gross premium		\$106.90
Credit	42.76	
Commission	5.35	
Interest on three notes in advance		7.68
Cash on hand last year		82.43
	<u> </u>	<u> </u>
	\$48.11	\$197.01
Balance		148.90
Interest six per cent..		8.93
 Credit end of the year		<u>\$157.84</u>
Cost of insurance	8.16	
Cash on hand		149.67
Surrender charge	62.68	
Surrender value		86.99

In all the above computations we have made the case as favorable as possible to the policy-holder, and if we have erred at all, it has been against the companies. In more than three fourths of the companies we will venture to say that the usual annual and initial expenses of a policy are much greater than are here represented. It will also be noticed that we have made no charge except the commissions for keeping a policy in force after it is once issued. The *actual* cost of insurance varies so much in different companies, that we have taken only the *tabular* cost.

In giving a paid-up policy for \$200 on a ten year endowment of \$1,000, after two annual premiums have been paid, we have the net single premium for \$200 = \$139.68, and on the mutual rate, \$153.65. The amount of cash on hand, according to the above assumptions,

leaving out the surrender charge, is \$166.35. The third year the net single premium for \$300 is \$230.40, and the mutual rate is \$253.44; the amount of cash on hand to meet this is \$275.32. It is only by ignoring the surrender charge that the company can afford to give paid-up policies in this manner.

Little Gained by Lapsed Policies.

In investigating this subject we must conclude that the companies actually lose money on the aggregate of all cash policies which lapse during the first year. In the lapse of half note or part loan policies the loss cannot be doubted. It is questionable whether they actually gain anything on the aggregate of those which lapse during the second and third years, for in all limited term policies where the reserve is the greatest, paid-up insurance is generally preferred to lapse or surrender values. It is perfectly safe to say that, as a general rule, a company gains more when the policy is kept in force, than by paying three fourths or two thirds of the reserve as a surrender value.

In conclusion, we would desire every agent to say : "Avoid asking for a cash surrender value on your policy if you can possibly help it, unless the amount to be paid is distinctly stated in the policy." It is probable that not one man in a hundred who takes a surrender value for his policy ever thinks he is justly treated, when the value is left to be determined at the discretion of the officers of the company, and he accepts what he can get with the resolution never to be caught again. And we caution our readers against a temptation to which many policy-holders are exposed—that of applying for a surrender value on a policy already in force, in order to allow an agent to transfer them to another company, unless the one they are already insured in is totally unworthy of confidence.

To agents and solicitors we again say, counsel your clients to have as little to do with surrender values as possible. This is not a legitimate part of insurance, and should not be made an inducement for one to take a policy unless the company guarantees a specific surrender value, and in all cases give little or no encouragement for one if the party proposes to take a part loan or note on his premium.

In this examination of the subject we have endeavored to give such information as will dissuade many a policy-holder from applying for a cash surrender value on his policy, or if it is absolutely necessary, we have

endeavored to prevent them from being disappointed and from making unjust charges of extortion against the companies when they do not receive all they expected. When life insurance becomes better understood, and the people at large know what they can reasonably expect of a company, and how to distinguish the highly colored statements of interested agents from the sober reality of this complicated kind of business, then it will be better appreciated, and the disappointment about surrender values will be comparatively unknown.



CHAPTER XIV.

DISTRIBUTION OF SURPLUS.

It is highly important that the agent should clearly understand this subject in order that he may correctly explain it when necessary, and especially that he may avoid making statements and promises which cannot possibly be realized. The public know little or nothing about the methods adopted in distributing dividends, and on this as well as many other points in life insurance they depend almost entirely on the agents for information.

Premiums.

The company adopts a table of net premium rates for policies of \$1,000, according to certain arbitrary standards of mortality and interest which long experience and attentive observation have shown to be safe and trustworthy. In the table of mortality it is assumed that out of 100,000 persons living at the age of ten years, a certain number will die at each succeeding age up to ninety-five or ninety-nine, or the oldest age in the table. A rate of interest is assumed low enough to cover all probable fluctuations in the value of money, and which it is supposed that the invested reserves of the company will yield without question. The "net premium" is what it would cost to insure each one of the whole number of lives in a class of a given age, provided there were no excess or deficiency of mortality or interest, and no expenses to be incurred. But neither the future mortality, interest nor expenses of the company can be predicated with any certainty. The company can make a careful selection of risks so as to keep the mortality within tabular limits; it can invest the assets at as high a rate of interest as is consistent with safety; it can keep the expenses down within proper bounds while using all due energy in prosecuting the business; and then, if there is any surplus left at the end of the year, it can distribute it among the policy-holders.

Mortality.

If no deaths should take place among the members of a company in any given year there would be no

losses to pay, but it would not do to distribute the apparent gains as surplus. This might do in a fire insurance company where the policies are renewed from year to year, but in a life company, if the actual losses were \$100,000 less than the expected or tabular mortality, this amount of loss is simply *postponed*, and all the company gains is the interest on these deferred losses which must occur at some future time. The next year the losses may be \$100,000 greater than the tables call for, and it is unwise and unscientific to distribute what must eventually be paid. If the number of losses is just equal to the tabular limit, but if the average amount of each death loss is greater than the average amount of the policies, which is usually the case, a deficiency is occasioned which must be made up in the future.

Interest.

The company assumes that the reserves will earn a certain rate of interest, usually four or four and one half per cent. When the assets are invested in interest-bearing securities, they usually realize from five to eight, or even ten per cent., but several weeks or perhaps months must elapse after a premium is collected before it is permanently invested, and in every company a large sum must be kept on deposit in the banks in order to meet expenses and pay losses, so that the actual average rate of interest which will be received on the reserve and surplus cannot be predicated with any absolute exactness, certainly not till the company has had some age and experience.

The rate of four or four and a half per cent. is generally assumed by mutual companies as the basis of all their calculations, and is also made the legal standard in most States where an official valuation of policies is required. Whatever interest on the reserves is realized over the standard rate is used to offset any deficiency in losses or expenses, or if none of these exist, then it is considered as surplus.

Margin or Loading.

The company having decided what shall be the net premium, adds a loading or margin for expenses, excessive losses, etc. Since these cannot be predicated with any certainty, but only on the law of average and past experience, it is highly important that the company should proceed with great care in making contracts which are to last for a number of years. In a mutual

company, each one of the policy-holders is bound to pay the losses as they occur to the extent of the premiums on his policy, but no farther. It is highly important then that the premiums should be large enough at the outset, as it is impossible to increase them afterward on policies already in force. Safety to the policy-holder is one of the most important considerations in life insurance, and the company must charge enough at the acceptance of a risk to make it a safe transaction amid all the vicissitudes of future years.

This is not peculiar to life insurance. Fire insurance companies add a margin to their premium rates to provide for the losses occasioned by extraordinary conflagrations, and marine and accident insurance companies also adopt a similar rule. In all insurance companies solvency is of the highest importance, and this can only be obtained by having premiums large enough to cover losses and expenses.

Whatever excess there is in the margin above expenses and other claims upon the company (including dividends to stockholders, if any) is surplus. Since the margin is paid at the beginning of the insurance year with the premium, and the dividends are declared at the beginning of subsequent years, the actual rate of interest upon the unexpended part of the premium must be added to it in finding the surplus from this source.

We have then three principal sources of surplus gains—from deferred mortality, interest, and loading. There may also be other sources, such as profits realized on the sale of securities, sales of real estate, rents of buildings, profits from lapsed policies, etc. Whatever gains there are from these miscellaneous sources, should be added to the former items.

Period of Distribution.

Until within a few years many companies divided their surplus once in three or five years. This practice allows the surplus to accumulate, and in case of any extraordinary losses, here is a resource to which the company can apply; for until the surplus is actually distributed, it is subject to the claims of the company.

Most of the English companies distribute their surplus once in three, five or seven years, the most common period being five years. The Equitable Life Assurance Society, established in 1786, did not distribute any surplus during the first twenty years, and since that period it has divided it at decennial intervals.

The principal argument in favor of division at long intervals is that in some years the mortality is much greater among policy-holders than in others, and it is to avoid the irregularities which must necessarily appear in annual distributions that these longer periods are chosen.

This practice is eminently safe and conservative; too much so for the competition and rivalry of our companies at the present day, and the annual distribution of the surplus, commencing on the payment of the second or third premium, is generally adopted.

Methods of Distribution.

The principal methods of distribution used in this country are :

Percentage on premiums paid.

Percentage on reserves.

The contribution plan.

Percentage plan. Until within a few years the percentage plan was the one in universal use. It is performed by returning, usually four years after the premium is paid, a certain proportion or ratio of that premium. It is the plan usually adopted by the English companies at the present day, and some companies in this country still adhere to it, either wholly or in part. When the policies were nearly all on the whole life plan, with few or no endowments, the want of equity in it was not then so clearly manifest. But when different kinds of premiums have arbitrary rates of loading, or when premiums are computed on different mortality tables and rates of interest, the inequality of distribution becomes clearly manifest. A uniform percentage of surplus is not earned, and therefore cannot be returned without robbing some policy-holders to the benefit of others. In practice, however, the percentage plan was productive of considerable satisfaction among those companies where the half note system prevailed. A uniform percentage of surplus and half credit premiums brought the insurance down to very nearly the net cost, and was practically carrying out the stock plan. It had this advantage, that it was usually regular from year to year, and people depended upon it with little fear of disappointment. When the science of life insurance came to be more studied, it was seen that there were some radical defects in it. It failed to do equal justice to endowments, limited term life, and whole life policies ; to some it gave too much surplus and to others too little. Besides, the increasing ex-

penses of companies made it impossible to pay so large a dividend during the first years of a policy without invading the reserve fund. For these and other reasons the old companies have generally abandoned it, and the new companies have never adopted it.

Percentage on reserves. This plan has been adopted by a few companies, but has not come into general use. It is claimed that if the premiums are all computed on the same table of mortality and interest, and have the same loading, then this plan gives an equitable distribution. It is much more easily understood than the contribution, and more equitable than the percentage plan

The Contribution Plan.

Our remarks upon "Premiums, Mortality, Interest, Margin or Loading," etc., may be considered as preliminary to an examination of the "Contribution Plan" of dividing surplus. This method was first applied to the distribution of surplus by Mr. Sheppard Homans, formerly actuary of the Mutual Life Insurance Company of New York. It was used for the first time in 1863 in the distribution of the quinquennial dividends of that company, and it has since been adopted by most of the American companies.

It is so called because each item of excess in interest, loading, etc., is made to contribute its own proportion on each policy to the sum total of the surplus. It enables the company to keep an account of all the sources of income and items of expenditure on each policy, and every policy-holder has his share of the surplus credited to him at the end of each insurance year.

Since many companies make the "gain from vitality," or the excess of tabular over the actual mortality, a source of surplus, we will explain how this is done, although we have stated our reasons for regarding it as unscientific and unsafe.

Cost of insurance. According to the Combined Experience Table of Mortality and four per cent. interest, a man aged 45, insuring on the whole life plan for \$1,000, at the end of the fifth year has a reserve on his policy of \$93.34. This is his "self-insurance," as Hon. Elizur Wright calls it, or the amount which he has on deposit with his company, and it is the amount for which he insures himself — the balance; or \$1,000 — 93.34 = 906.66 is the amount which the company assumes as a risk; that is, the whole amount of the policy is divided, the policy-holder insuring himself to the

amount of his reserve and the company insuring the balance. These two quantities are continually changing, and are seldom the same two days in succession, but for the sake of convenience and uniformity we take the value of the policy at the end of the year. At the end of four years, what is the probability that the company will have the \$906.66 to pay during the coming year, or what is the cost of insurance? The probability by the Combined Experience Table that he will die during the fifth year is found by dividing the tabular number of deaths at the age 49 by the tabular number of living, or $\frac{1063}{70580}$; that is, out of 70,580 persons living at the age 49, 1,063 will die before the year ends, or the probability that any one of these persons will die is $\frac{1063}{70580} = .015061$, and the risk that the company runs of losing a dollar under these circumstances is one cent, five mills and a fraction. The amount of risk which the company assumes of losing 906.66 during the year, is $906.66 \times .015061 = \13.65 , which is the tabular cost of insurance, which is found by deducting the reserve at the end of the year from the amount insured and multiplying the difference by the probability of dying that year.

The following table, based upon the Combined Experience Table of Mortality and four per cent. interest, gives an illustration of the cost of insurance on a policy of \$1,000, issued on the whole life plan at the age 45. If the actual mortality is only three fourths of the tabular rate, the last column shows what is sometimes distributed as "gains from vitality : "

Year of Policy.	Reserve.	Amount at Risk.	Probability of dying.	Cost of Insurance.	Gains from vitality. 25 per ct.
1	\$18.01	\$981.99	$\frac{9}{74435}$	\$11.99	\$3.00
2	36.36	963.64	$\frac{944}{73526}$	12.37	3.09
3	55.04	944.96	$\frac{881}{72517}$	12.77	3.19
4	74.03	925.97	$\frac{1021}{71601}$	13.20	3.30
5	93.34	906.66	$\frac{1063}{70580}$	13.65	3.41
6	112.94	887.06	$\frac{1108}{69517}$	14.14	3.53
7	132.80	867.20	$\frac{1156}{68409}$	14.65	3.66
8	152.91	847.09	$\frac{1207}{67253}$	15.20	3.80

In the following illustration we have a policy issued on the whole life plan at the age of 45 for \$1,000. The explanation of the Contribution Plan is based upon the following assumptions :

1. The net premiums, reserves and cost of insurance are computed on the Combined Experience Table of Mortality and four per cent. interest.

2. The average expenses of the company are 15 per cent. of the gross premiums.
3. The average interest realized on the assets is six and one half per cent.

FIRST YEAR.

First Source.—From loading.

Gross premium,	\$37.97
Net premium,	28.85

Loading,	\$9.12
Expenses, $37.97 \times .15 =$	5.70

Difference,	\$3.42
Interest 6½ per cent., . . . . .	.22

Surplus from loading,	\$3.64

Second Source.—Interest on reserves.

Reserve at the end of first year,	\$18.01
Difference between actual and assumed rate of interest 6½ — 4 = 2½ multiplied by reserve, $18.01 \times .02\frac{1}{2}$,	.45
Total surplus from these two sources at the end of the first year, $3.64 + .45 =$	\$4.09

SECOND YEAR.

<i>First Source</i> .—Surplus from loading same as before,	\$3.64
<i>Second Source</i> .—Interest on reserves, $36.36 \times .02\frac{1}{2}$,	.91
Total surplus,	\$4.55

THIRD YEAR.

<i>First Source</i> .—Surplus from loading,	\$3.64
<i>Second Source</i> .—Interest on reserves, $55.04 \times .02\frac{1}{2} =$	1.38
Total surplus,	\$5.02

FOURTH YEAR.

<i>First Source</i> .—Surplus from loading	\$3.64
<i>Second Source</i> .—Interest on reserve, $74.03 \times .02\frac{1}{2} =$	1.85
Total surplus,	\$5.49

FIFTH YEAR.

<i>First Source</i> .—Surplus from loading	\$3.64
<i>Second Source</i> .—Interest on reserves $93.34 \times .02\frac{1}{2} =$	2.33
Total surplus.	\$5.97

SIXTH YEAR.

<i>First Source</i> .—Surplus from loading	\$3.64
<i>Second Source</i> .—Interest on reserve, $112.94 \times .02\frac{1}{2} =$	2.84
Total surplus.	\$6.46

SEVENTH YEAR.

<i>First Source</i> .—Surplus from loading	\$3.64
<i>Second Source</i> .—Interest on reserves $132.80 \times .02\frac{1}{2} =$	3.32
Total surplu.	\$6.96

EIGHTH YEAR.

<i>First Source</i> —Surplus from loading.	\$3.64
<i>Second Source</i> —Interest on reserves $\$152.91 \times .02\frac{1}{2} =$	<u>3.82</u>
Total surplus.	<u>\$7.46</u>

This illustration is simply designed to show the method of finding the surplus, and the assumptions are entirely arbitrary. In practice many other items may come in to vary these results, such as profits on investments, gains from lapsed policies, a low rate of commission in collecting renewals, and should the mortality in any given year be excessive, the excess should be deducted from the loading.

Application of Surplus.

REDUCTION OF NET ANNUAL PREMIUM,

Year.	Gross Premium.	Reduction.	Balance.
First year's premium	\$37.97		\$37.97
Second "	37.97	\$4.09	33.88
Third "	37.97	4.55	33.42
Fourth "	37.97	5.02	32.95
Fifth "	37.97	5.49	32.48
Sixth "	37.97	5.97	32.00
Seventh "	37.97	6.46	31.51
Eighth "	37.97	6.96	31.01
Ninth "	37.97	7.46	30.51

Reversionary Insurance, or Additions to the Policy.

The amount of reversionary insurance which the surplus will purchase is found by dividing it by the net single premium of \$1 for the present age of the policyholder. For the sake of simplicity we take the net single premium.

First year, amount insured		=	\$1000.00
Second "	$\$1000.00 + (4.09 \div .43886) =$		1009.32
Third "	$1009.32 + (4.55 \div .44935) =$		1019.45
Fourth "	$1019.45 + (5.02 \div .46002) =$		1030.36
Fifth "	$1030.36 + (5.49 \div .47088) =$		1042.02
Sixth "	$1042.02 + (5.97 \div .48091) =$		1054.41
Seventh "	$1054.41 + (6.46 \div .49311) =$		1067.51
Eighth "	$1067.51 + (6.96 \div .50446) =$		1081.31
Ninth "	$1081.31 + (7.46 \div .51595) =$		1095.77

There will also be a small amount of additional insurance derived from the surplus of the paid-up insurance; but it was not deemed best to puzzle the reader with it.

Purchase of Term Insurance.—The surplus can also be applied to the purchase of term insurance for one or more years. In the example which follows, we use the reserve to purchase single premiums of term insurance for seven years. At age 46, \$1 of term insurance for

seven years will cost .086671, and the first dividend of \$4.09 will purchase \$47.19 insurance. At the age 47, \$1 term insurance for seven years will cost .091507, and the dividend, \$4.55, will insure \$49.72 for that time. The following plan will illustrate this method :

Age.	Sing. prem. to insure \$1 for 7 yrs.	Surplus.	Term insur- ance, 7 yrs.	Amount of policy.
45				\$1000.00
46	.086671	\$4.09	\$47.19	1047.19
47	.091507	4.55	49.72	1096.91
48	.096736	5.02	51.89	1148.79
49	.102398	5.49	53.60	1202.39
50	.108531	5.97	55.01	1257.40
51	.115131	6.46	56.11	1313.51
52	.122250	6.96	56.93	1370.44
53	.129903	7.46	57.39	1380.64

Up to the age 52, the increased insurance of each year is added to the policy. At the age 53 the insurance, \$47.19, added at the age 46, having been in force seven years, is deducted and \$57.39 added.

This plan enables the policy-holder to get a much larger amount of insurance on his life during the earlier years of his policy than by reversionary insurance. By this method his additional insurance at age 53 is \$380.64, while if the dividends had been used to purchase reversionary insurance it would have amounted to only \$95.77.

The following table will show what will be the result if the surplus is applied to the purchase of term insurance for one year :

Age.	Sing. prem. to insure \$1 for 1 year.	Surplus.	Term insur- ance, 1 year.	Amount of policy.
45				
46	.012345	\$4.09	\$331.31	\$1331.31
47	.012996	4.55	350.11	1350.11
48	.013711	5.02	366.13	1366.13
49	.014482	5.49	379.09	1379.09
50	.015326	5.97	389.54	1389.54
51	.016248	6.46	397.59	1397.59
52	.017257	6.96	403.31	1403.31
53	.018359	7.46	406.34	1406.34

Advantages and Defects.

In every different method of applying the surplus there are some advantages and some disadvantages

which the agent will readily see by observing these tables. In the first method, the premiums are gradually reduced each succeeding year, and the insured has the less to pay the longer he lives, while the sum insured remains the same. In the second method, the amount insured increases gradually during life, and if the contingency should occur that the insured should be unable to pay his regular premiums, this amount of surplus thus accumulated can be used in some companies to keep his policy in force, or when the accumulated cash value of the surplus and the reserve is equal to the single premium at the increased age of the policy-holder, he is entitled to a paid-up policy for the original amount. In the third and fourth methods, the temporary increase of the policy, the policy-holder expends the whole amount of his surplus each year in purchasing new insurance, and consequently there is no reduction of premiums. He gets a larger amount of insurance at first, but it is not uniform during life. If he suspects that he is destined to live but a few years, this is the most profitable plan for him to choose.

Tontine Insurance.

A tontine is the oldest form of a life contingency. The original plan of a tontine was for a number of persons to subscribe a sum of money to a common fund, and the interest was divided annually among the survivors, the last survivor receiving the whole of the fund. The fundamental idea which lies at the base of all tontines is that the survivors get all the profits which have accrued up to the period of division. In the application of this principle to the distribution of surplus, the same law is observed: the survivors and those who keep their policies in force obtain the whole of the reserves and surplus of those who allow their policies to lapse, and the surplus of those who die before the period of its distribution.

The principal features in the plan, as adopted by some American companies, are as follows:

"Tontine policies issued in each year are to be kept in distinct and separate classes, in which the surplus remains with the company for ten, fifteen or twenty years, to be accumulated for the sole benefit of the surviving members, among whom it is to be divided exclusively at the end of the stipulated time.

"The insured chooses at the time of application whether he will enter the ten year, the fifteen year, or

the twenty year class, but can make no change from one class to another after the issue of his policy.

"In case of death within the tontine period, the amount of insurance only will be paid, without allowance for accrued surplus."

Persons discontinuing their payments during the tontine period will receive no surrender value or paid-up policy, but forfeit the same, together with the accumulated surplus.

"The usual thirty days' grace is allowed for the payment of premiums, with, however, a fine at the rate of 10 per cent. per annum when this grace is accepted.

"No policies can be restored after forfeiture on any account whatever.

"At the end of the tontine period the fund accumulated to the credit of the class is divided among the remaining members. Each member has the option of withdrawing his share in cash, applying it to purchase a paid-up policy, or, if he is desirous of continuing his insurance, the surplus over what is necessary as a reserve, and to pay the premium then due, may be employed to secure an annuity toward paying subsequent premiums."

The tontine policy becomes a triple "bet" on the part of the insured. As in the ordinary form of life policy, he bets that he will die during the year, and puts up his premium on the result. In the second place, he bets that he will live till the period of distribution of surplus, and stakes his share of it on this result. In the third place he bets that he will be prosperous enough to pay his premiums promptly, and pledges both his surplus and his reserve on the issue. Just so far as the first bet is the proper and legitimate one in life insurance, so far the second is contrary to it, and the third is introducing an entirely foreign element into the plan. Whether all three of these incongruous elements are for the ultimate advantage of the policy-holder, he must decide for himself.

In tontine insurance the advantage to be realized by the policy-holder is the largely increased dividends to be derived from the lapses of those who, unable to fulfill their obligations to the company, forfeit their surplus and reserves to the common fund, which at the end of the stated period is distributed among the more fortunate policy-holders.

It is not strange that this plan of insurance should have attractions for many, especially those who see only the prospective gains which each policy-holder feels sure he is destined to win. Before a man takes a

policy of this class, he should seriously consider whether financial prosperity has not as many contingencies as human life, and which carries the greater risk, he or the company. He who proves himself strong enough in the purse to win at last, will obtain a handsome return for his investment, especially if commercial panics or a general stagnation in business should compel many others to abandon their policies.

While the advantages of this plan to those who succeed in keeping their policies in force are undeniable, since they are absolutely certain to realize a larger profit than by other plans, there are some defects in it which the policy-holder ought to know.

The fundamental idea of an ordinary life insurance contract is that the company assumes the risk of paying the amount insured for an annual compensation, while all the risk which falls upon the policy-holder is only the difference between the reserve and the surrender value of the policy in case it should lapse. But in this plan, the policy-holder gets no annual compensation for the risk he assumes that all his surplus and reserves may be forfeited by non-payment of premium ; it is only in case that he "endures to the end" that he is rewarded. There is an inequality in the actual amount of risk covered by these two parties. In the nineteenth year of the policy, according to the table, page 142, the reserve is \$209.84, and the surplus is \$655.79, making \$865.33, which the policy-holder is liable to lose unless he pays \$19.89, while all the risk the company assumes this year is \$1,000 — \$865.33 = \$134.37. Can the average policy-holder at any time afford to carry so much more insurance for himself than the company does for him ?

On the part of the companies, however, this plan has the tendency to check the great, and in many instances unnecessary lapsing of policies, and so far as it holds people to the obligations they have assumed and the contracts they have made with the company, so far it will be a benefit to life insurance, and as the policies are prevented from lapsing, the average mortality of the company is lessened, for the principle of self-selection which the policy-holders adopt, uniformly operates against the company.

In the following table we have given an illustration of the practical working of this plan, based upon certain assumptions which may or may not be realized after ten or twenty years of practical operation. As this plan has only been recently introduced into this country, it

TABLE ILLUSTRATING THE PRACTICAL OPERATION OF THE TONTINE DIVIDEND SYSTEM OF DIVIDING SURPLUS.

is proper to add that all calculations and assumptions about the prospective profits are based upon the ordinary experience of policies, and not from the practical operation of the tontine plan itself.

EXPLANATION OF THE TABLE.

A, the age of the policy-holder during the successive years of the policy.

B, the number of policies in force each year.

C, the number of lapses which take place during each year.

D, the annual death claims.

E, the gross amount of premiums received each year from policies in force.

F, the annual expenses, 50 per cent. first year, 20 per cent. second year, and 10 per cent. thereafter.

G, the annual premiums less expenses.

H, the fund accumulated at the beginning of each year.

I, interest on the fund at 7 per cent. per annum.

J, the amount of the fund with interest.

K, the fund at the end of the year less the death losses.

L, reserve on the policies in force, Combined Experience four per cent.

M, surplus at the end of each policy year.

N, surplus which is credited to each policy-holder.

At the age 25, 1,000 persons insure; at the end of the year, 75 allow their policies to lapse, and there are eight death losses of \$1,000 each. The amount of premiums received during the first year is \$19,890, and allowing 50 per cent. for expenses, the net premiums are \$9.945. This amount accumulated at 7 per cent. interest, which is \$696.15, is \$10,641.15. Deducting \$8,000 death losses, we have the remainder, \$2,671.15, which is less than the reserve and there is a deficiency.

The next year, at the age 26, 917 premiums are paid, amounting to \$18,239.13, 69 policies lapse, and there are \$8,000 death losses. Allowing 20 per cent. for expenses, which amounts to \$3,647.83, we have left \$14,591.30, which added to the \$2,641.15 in column K, makes \$17,232.45. The interest in this at 7 per cent. is \$1,206.27, and the total fund is \$18,438.72. Deducting \$8,000 losses, the remainder is \$10,438.72, which is still less than the reserve.

The third year, allowing ten per cent. for expenses in this and each subsequent year, we have in column

G \$15,036.84 net premiums, which added to the fund of last year in column **K** (\$10,438.72) makes the fund at the beginning of the third year to be \$25,475.56, adding \$1,783.29 interest, it amounts to \$27,258.85, and deducting \$7,000 losses, there is remaining \$20,258.85, which leaves a surplus, after deducting the reserve of \$19,790.40, of \$468.45. If the reserve should be distributed among the 774 policy-holders who keep their policies in force, the share to each one would be .61.

At the end of the tenth year, the surplus amounts to \$55,657.30, which divided among 463 policy-holders, the number which keep their policies in force, we have \$120.43 as the share of each. This amount, converted into paid-up insurance, would amount to \$353.59.

At the end of the twentieth year we have \$193,405.70 surplus, which divided among 251 policy-holders who remain, gives to each \$770.54. This converted into paid-up insurance would add \$1,798.10 to the policy, making the sum insured \$2,798.10.

This surplus may be converted into an annuity (Combined Experience four per cent.) in addition to a paid-up policy, in the following manner :

Reserve end of twentieth year,	\$209.84
Surplus dividends,	770.54
Total,	980.38
Single premium, age 45,	428.57
 Surplus on paid-up policy,	\$551.81
Present value of annuity of \$1	14.8571
Annuity which the surplus will purchase, . .	37.14

which is nearly twice the annual premiums hitherto paid.

If a man wishes to speculate on this kind of insurance he has only to take out a policy on this plan and "hedge" his payments by purchasing a term annuity for the prescribed number of years. The present value of a term annuity \$19.89 for twenty years (Combined Experience 4 per cent.) is \$262.24, but his reserve is \$209.84, and his surplus \$770.54, making \$980.38, which equals \$262.24, invested for twenty years at compound interest at a rate a little less than seven per cent., so that he has kept his life insured and made nearly seven per cent. on his investment. If he purchases an annuity for \$226.84, (American Experience seven per cent.,) then he would make nearly eight per cent. and keep his life insured, without incurring any risk that his policy would lapse.

Savings Bank Life Insurance.

This plan of insurance is presented and advocated by Hon. Elizur Wright, the prominent feature of which is the guaranteeing of a fixed surrender value at the end of each year of a policy. To find the surrender value of a policy on this plan, the present value of the future cost of insurance on the policy is computed, and eight per cent. of this is adopted as the surrender charge, which, subtracted from the reserve, leaves the surrender value.

In all its prominent features it is precisely the reverse of tontine insurance. It does not hold out the inducement of large dividends, for the premiums are loaded a very little above net rates, and the surrender value of the policy, which can always be known by referring to it, makes it a safe collateral for any purpose. After paying the necessary expenses and losses, whatever surplus remains is distributed annually on the contribution plan.

In this plan the attraction is the surrender value, and as all members of the company who adopt this form of insurance have equal rights, the usual objections to paying large surrender values do not apply here. No risk is incurred by the policy-holder lest his dividends and reserve may be forfeited by the non-payment of premiums. As a savings bank, the company becomes a safe depository of an annual premium, the reserve of which is accumulated at a stated rate of interest during the period of insurance, and can be withdrawn at any time by paying a small surrender charge ; as an insurance company, it insures his life to the amount of the policy, payable at a certain age if living, or at death if this event should occur before the period of insurance expires.

The method of computing the surplus and surrender values is illustrated in the table, page 147, and explained by Mr. Wright.

By this plan the insurance done by the company and the self-insurance by the policy-holder are kept separate. "The self-insurance department is a contract between the company and the individual, in regard to which, except as to the interest on the deposits beyond four per cent., the other members of the company have no concern whatever, any more than one depositor in a savings bank has with another. The deposits with four per cent. interest are the property of the depositor. They have no effect on the insurance whatever; except to diminish the amount. There is no forfeiture

here for the violation of any condition. Here the party contracts to pay annually the two series of sums contained in the first and second columns. The "constant margin" of the first column for insurance expenses and extraordinary or unexpected death claims. The "normal cost of insurance" in the second column is to pay the ordinary cost of carrying for one year the risk placed against it in the third column. The "insurance value" in the fourth column is the present value of the current and all future "normal costs of insurance" in the second column. The surrender charge in the fifth column is what the party forfeits by violating in any way or terminating at his option this insurance contract. It is the indemnity which the company is to receive for its loss of insurance value or strength by the non-fulfillment of its contract. Of course the savings bank "reserve" is the only security the company has for the payment of this indemnity, and it is always sufficient for that purpose, except at the end of the first and sometimes the second year of policies of very long term. The "surrender value" is the difference between the reserve and the charge for canceling the insurance part of the contract.



ENDOWMENT POLICY FOR \$1000, PAYABLE AT DEATH OR 50.

Age of Entry, 35. Gross Premium, \$57.68. Net Premium, \$53.72.

Age of person.	INSURANCE.					SELF-INSURANCE.			Age of policy.
	Margin.	Normal costs of insurance.	Company's risks.	Insurance values.	Surrender charges.	Deposits.	Reserve.	Surrender values.	
35	\$3.96	\$8.50	\$952.97	\$63.07	....	\$45.22	....	\$42.45	1
36	3.96	8.24	903.78	57.26	\$4.58	45.48	....	92.10	2
37	3.96	7.94	852.35	51.48	4.12	45.78	96.22	143.99	3
38	3.96	7.61	798.47	45.73	3.66	46.11	147.65	198.33	4
39	3.96	7.23	742.06	40.04	3.20	46.49	201.53	....	....
40	3.96	6.80	682.95	34.47	2.76	46.92	257.94	255.18	5
41	3.96	6.34	620.99	29.07	2.33	47.38	317.05	314.72	6
42	3.96	5.82	556.04	23.90	1.91	47.90	379.01	377.10	7
43	3.96	5.28	487.87	19.02	1.52	48.44	443.96	442.44	8
44	3.96	4.68	416.39	14.44	1.16	49.04	512.13	510.97	9
45	3.96	4.01	341.35	10.27	.82	49.71	583.61	582.79	10
46	3.96	3.24	262.50	6.59	.53	50.48	658.65	658.12	11
47	3.96	2.33	179.56	3.53	.28	51.39	737.50	737.22	12
48	3.96	1.26	92.18	1.26	.10	52.46	820.44	820.34	13
49	3.96	.00	.00	.00	.00	53.72	907.82	907.82	14
50	....	....	....	....	....	1000.00	1000.00	1000.00	15

CHAPTER XV.

THE LAW OF LIFE INSURANCE

In this chapter we propose to give a summary of the leading principles of law which apply to life insurance companies and their agents. It is highly important that the latter should have a general idea of their legal relations to the company and their responsibilities to it, as well as of the obligations and privileges of the policy-holders. We shall first give an outline of general principles and then practical illustrations and digests of decisions.

It is hoped that a perusal of this chapter will enable agents to avoid many acts which, through ignorance or negligence, lead to vexatious litigation or the payment of claims which ought never to have been incurred. Life insurance companies naturally avoid litigation, and it often happens that they pay unjust claims rather than go into court. Juries are not apt to find verdicts in their favor if they can help it, and the tendency of recent decisions, as will be seen hereafter, is to hold the companies strictly responsible for the acts of their agents. This subject has an additional importance when we consider that the companies depend upon agents scattered throughout the different States, for nearly all their business ; the officers have little or no acquaintance with them, and yet the companies are held legally responsible for all their acts done in the prosecution of their business. How important it is, then, that in making contracts involving the payment of thousands and millions of dollars, that the agent should have some knowledge of the legal bearings of his actions.

The Company as a Corporation.

A life insurance company is a corporation, and as such it is "an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence." It has also certain general powers which are incident to it ; it

has a name by which it is known and called, and by which it is to transact business ; it has perpetual succession, that is, the members have power to fill vacancies by election ; if it has a stock capital, its shares are transferable to assignees and are considered as personal property. In its corporate name it can sue and be sued, buy and sell, and do all acts such as natural persons may, within the limits of its charter. It has a common seal as evidence of its corporate acts ; it has the power of making by-laws or private statutes for its own government, and for the regulation of its business, but these by-laws must be in accordance with its charter. It has also the power of appointing certain officers and agents to manage its affairs and by whom alone its business can be transacted. By common law, corporations must appear by attorney to defend or prosecute suits at law, and many States require foreign life companies to appoint an attorney to accept service, and against whom a suit may be brought in the name of the company. A corporation may be dissolved by the death of all its members, by the surrender of the franchise into the hands of the legislature, or by a forfeiture of its charter by negligence or abuse of its powers and privileges.

The Agent—Powers and Duties.

An agent is a person appointed by another to transact business for him, and the person who employs him is called the principal. Both principal and agent may be firms or corporations as well as persons.

A general agent is one appointed to transact all the business of the principal of a particular kind, and will bind the principal as long as he keeps within his general authority, although he may act contrary to his private instructions.

A special or particular agent is one constituted for a special purpose, under a limited and circumscribed power, and cannot bind his principal by any act not within his authority.

An agent cannot delegate to a third person power to act for him unless he has special authority from the principal.

The act authorizing the appointment of an agent may be either oral or in writing ; an oral or unwritten authority will authorize a written exercise of it, and a written authority will authorize the execution of an instrument not under seal, but to execute a sealed instrument, the party acting must have sealed power or authority.

If a company approves of the acts of one in the capacity of agent, or retains the advantages of them, it will be bound by them although it gave him no special authority to act for it.

Every act of an agent within the apparent scope of his authority will be binding upon the principal, for, as third persons cannot be supposed to know the agreement between the parties, and can judge only from appearance, the agent shall be presumed to transact the business in which he is ostensibly engaged. No secret instructions or private agreement between them can affect the rights of others, and though the authority should be revoked, the principal would be liable to another contracting with the agent, without notice of the revocation, at least till proper notice had been given.

The principal is responsible in civil actions for the acts of his agent, and if the agent is guilty of any fraud, wrong or neglect, in the course of his business, an action will lie against the principal in favor of the party injured.

These general principles apply to life insurance companies, and recent decisions are very strong in making the companies responsible for the acts and representations of its agents and solicitors. The following extract from a decision recently rendered by Chief Justice Day of Iowa is clear and decisive. In this case the agent insured a man whom he knew was addicted to the use of intoxicating liquors, and it was held that notice of the fact to the agent was notice to the company, although it was stated in the application that he was a temperate and sober man.*

* Notice to an agent relating to business which he is authorized to transact, and while actually engaged in transacting it, will, in general, inure as notice to the principal.

To this view the judicial mind seems rapidly tending, and it is certainly more in accord with the enlightened and progressive spirit of the age. These companies select their own agents, require them to enter into bonds for the faithful discharge of their duties, and send them forth provided with blanks and clothed with all the insignia of authority. If their ignorance or their cupidity leads them to recommend improper risks, it is more in consonance with reason that the loss should be borne by the company than that the assured should be made the victim of the incompetency or avarice of the agent. More especially is this true in view of the fact that the company has the means of indemnity through the bond of the agent.

Just principles of public policy require that these companies should be held to a strict degree of responsibility for the acts of their agents. They will thus be led to the exercise of greater circumspection in the selection of them, and the masses will, in part at least, be re-

The Agent's Relations with the Company.

In a case where the company claimed that the agents had forfeited all claim to the agency and renewal commissions by a violation of their contract, it was held—

1. That a general agency for a life insurance company is revocable at the will of either party, where no terms of limitation as to time are specified in the contract or letter of appointment.

2. It is also competent for the company to appoint other agents for the same territory where no terms of exclusiveness are employed, and such appointment of other agents constitutes no ground of complaint, unless it be shown that the business of the first appointee is substantially interfered with.

3. If the general agents abandon any part of their agency, as for example that part which relates to the canvassing for applications, it is in law the abandonment of the whole agency, including the right to collect renewals.

4. If the agent is removed from the company without cause, he will still retain his right to collect the renewals, or his commissions thereon, provided he continues ready and willing to collect them.

5. If the agent is guilty of any misconduct or breach of duty in his business as agent, or, in other words, if he neglects or refuses to fulfill the instructions of the company, which form a part of the contract of agency, especially if he refuses or neglects to remit funds, or otherwise make prompt returns as required, or if he accepts another agency and transfers business to it, he forfeits all interest in it, and claim to renewals and commissions, and cannot maintain an action on account thereof.—*Bigelow, Life and Accident Rep., vol. 2, p. 149.*

In another case the doctrine is laid down that if an agent should grossly misconduct himself in the course

lied from an annoying importunity which often leads them to procure policies without the full concurrence of their judgments, and in opposition to their best interests.

The business of insurance is rapidly increasing in magnitude and importance, and it is as essential to the companies themselves as to the insured that the rules of law declared applicable to them should be based upon just and equitable principles, and administered in harmony with the doctrines of an enlightened jurisprudence. It is quite time that the technical constructions which have obtained with reference to contracts of this kind, blocking the pathway to justice, and leading to decisions opposed to the general sense of mankind, should be abandoned, and that these corporations, grown opulent from the scanty savings of the indigent, should be held to the same measure of responsibility as is exacted from individuals.—*2 Bigelow Life and Acc. Rep., p. 698.*

of his agency, and should prove unfaithful to his trust, he would forfeit his claim to compensation or commission, but his misconduct must be gross and aggravated before such consequences would follow; ordinary or slight misconduct would not work a forfeiture of his commissions, although it might be a good cause for the revocation of his agency.

It was also shown that the probable expectancy of the life of the policies so procured would be from eight to thirteen years, and taking all the contingencies of deaths and forfeitures into consideration, they would remain in force at least ten years. It was also shown that a custom prevailed among insurance companies and agents by which agents acquired a property in lists of policies procured by them.

The contract of agency in this case was an entire contract, and not a divisible one, that is, the agent has the right to the whole of the renewal commissions during the lifetime of the policies, and the contract was not one which is renewable from year to year.—*1 Bigelow, Life and Acc.*, 646.

If an agent makes a false representation of the affairs of the company whereby a person is induced to effect insurance, an action will lie against the company, although no pecuniary damage has been sustained beyond the payment of premiums, because if the agent had made his statements according to the truth, the insurance might not have been effected.

Insurance Brokers.

A broker is an agent employed to make contracts in matters of trade, commerce or navigation, for a commission commonly called a brokerage. While a factor may sell in his own name or that of his principal, a broker is not intrusted with the possession of what he has to sell, nor can he obtain possession of what he is employed to purchase, but he merely acts as a middleman or negotiator between the two parties. In life insurance a broker is employed simply to contract for and deliver policies to the persons insuring, and to receive the premiums due on them; he has no power to make, waive or alter any of the conditions of the policy, and in all cases he is bound so to conduct himself in the business he undertakes as not to be guilty of gross negligence.

A broker is agent for the insured, and therefore if a broker delivers a life policy and collects the premium, but fails to pay it to the company, the company will not be liable to pay the loss should it occur. But

where the premium is paid to an authorized agent of a company, it is liable.—*Story on Agency*, § 28.

The Law of Contracts.

Since the business of a life insurance agent is to negotiate contracts between the policy-holder and the company, it is important that he should know the general character and limits of contracts. A contract is defined at common law to be an agreement between two or more persons to do or not to do a certain thing. It is essential to the validity of a contract to have the assent of both parties, but if one of the parties is insane, under duress or under age, or in any way disqualified to give a rational consent, the contract is voidable, but in these cases the contract will be presumed to be binding till the contrary is proved.

The assent may be either expressed or implied. In the latter case, if a person recognizes his contract as being in force by any act of his own, even by implication, then it is binding. If a company should make a condition that a policy on which the premiums were not paid on a certain day should be forfeited, and yet should continue to receive them after the period of payment, it would be an implied assent to new terms in the contract.* The assent to any part of a contract, or to any violation of a part of it, may be tacit as well as expressed, and in either case the party will be bound by his engagement.

The term *implied contract* is generally used to denote a promise which the law, from the existence of certain facts, presumes that a party has made. When a man undertakes any office, employment or duty, the law supposes that he contracts with those who employ or trust him, to conduct with the skill, integrity and diligence he professes to have, and if through negligence or incapacity he fails, the other party has his remedy in an action for damages. If a man makes a contract with a life insurance company to manage an agency for a term of years, and it is agreed that he shall have a commission on the renewal premiums in the meantime, neglect or incapacity to make the agency a profitable one is a sufficient ground to enable the company to cancel the contract and deprive him of the future renewal commissions.

An *absolute contract* is where one party binds himself positively, without any conditions to its performance.

* Decisions on this point vary in different States.

A *conditional contract* is one in which the obligation depends upon the fulfillment of some condition. A life policy is a conditional contract, dependent upon the truth of certain statements made in the application, and the subsequent observance of those conditions in the policy which forbid his exposing his life in certain dangerous occupations or practices which shorten life.

It is essential to a contract that it be founded on a sufficient and lawful consideration. A mere voluntary offer to do a thing is not a contract. Something must be given in exchange between the parties—there must be some mutuality in the bargain to make it binding. This rule applies to all contracts and agreements not under seal, with the exception of bills of exchange and negotiable notes after they have been negotiated. It is not necessary that the consideration be something tangible; any damage, or suspension, or forbearance of right, or a promise to do a thing in a certain contingency, or a mutual promise, is a sufficient consideration, provided the mutual promises are concurrent in point of time. A promise by a company to pay a sum of money to the heirs of the insured in case of his death is a sufficient consideration for an annual premium. The death may take place at any time, and the company must hold itself liable to pay the policy even at a great disadvantage to itself.

A contract valid by the law of the place where it is made, is, generally speaking, valid everywhere by the law of nations and by tacit consent.

All contracts will be considered to be in force from the day of date, or the completion of the contract, unless the contrary be proven. But the contract will be binding if the date is at variance with the delivery. Since the payment of the first premium is always a condition precedent to the delivery and obligation of a life policy, it is this, rather than the date, which determines when it begins to be in force, but when once in force it will take effect from the date by relation.

An *escrow* is an obligation made by one party and delivered to an agent or stranger to hold till certain conditions are performed, and then to be delivered to the person for whom the obligation was made. A policy of insurance made by the company, but stating that it is not binding till countersigned by an agent, is an escrow, and the policy is not perfected till thus signed, and as long as it remains in the agent's hands it is not binding on the company, (although some recent decisions hold to a contrary doctrine,) but if the policy is delivered to the policy-holder without the agent's sig-

nature, the law considers that this condition has been waived, and in case of death the claim will have to be paid. Agents, therefore, should never sign policies remaining in their hands until the premium is actually paid.

When a claim is made upon a contract in writing it is necessary that the party claiming under it should produce it, and no parol evidence will be of any avail to substantiate its terms. If the insured loses his policy, or if it is destroyed by fire, he should immediately state the fact to the company and obtain a duplicate, for, in case of death, the claim would not be paid without the surrender of the policy.

It is a fundamental principle in law that parol evidence will not be taken to contradict, vary or explain a written contract, or to show it to be different from what it purports to be on the face of it, except in the single instance of latent ambiguity. When two parties have reduced a contract to writing, it is presumed to contain the whole of it, that the parties have deliberately weighed every word, and each sentence expresses its full meaning, and to admit parol evidence would destroy all the advantages of writing. Every agreement must receive its construction from its own terms without the intervention of any evidence foreign to it, unless it be to explain the meaning of some words and how they are used in the business. It has been decided that a policy of insurance must be interpreted according to the words of the policy, and cannot be varied by the words or promises of any pamphlets or circulars issued by the company.

Contracts should be construed so as to give effect to real intention of the parties so far as it can be ascertained. When parties make a contract they have a definite end in view, something which is to their mutual advantage, and it should be construed so that their real intention should prevail. The construction should be reasonable without ambiguity, and the words are to be understood according to the meaning in which they are generally employed. Where there is no ambiguity in the language, none should be admitted in the explanation. Bad grammar or bad spelling does not vitiate a contract if the real intention of the parties can be understood. The construction should be made on the whole contract, and not on the separate parts. When the words are doubtful, the first thing to be inquired into is the intent of the parties, and if that intent is plain and manifest, such construction ought to be put upon them as will best answer the intention; and if

words bear two senses, they ought to be understood in the sense which is most agreeable to the nature of the contract, and anything ambiguous may be explained by the common use of the terms of the country where the contract was made.

In interpreting contracts words should be taken most strongly against the grantor and in favor of the other party; thus in the construction of a life policy the meaning will be construed as favorably as possible toward the policy-holder, because the company writes the policy and is supposed to exercise all due deliberation in it. It seems, then, that the same rule should apply in construing the application when made a part of the policy, and that this should be taken most strongly against the policy-holder.

But this rule does not go so far as to authorize a construction against the promisor merely because that view is possible. On the contrary, in the absence of anything to show that the terms of such contract are intended to be understood in a particular or special sense, courts will go no further than to hold the promisor liable to the extent which the other party had a right to understand from the terms of the instrument when viewed in their ordinary and commonly-received acceptance.

A policy of insurance, like other contracts, should be construed according to the sense in which the parties are supposed to have understood it at the time it was entered into, and they will be presumed to have understood it in the sense that men of ordinary intelligence ought to have understood it.

Life Insurance not an Indemnity.

An insurance upon life has but a remote resemblance to fire or marine insurance. In the latter the particular object is to indemnify against a pecuniary loss, the contract being to pay whatever is lost not exceeding a certain specified sum. But life insurance is a contract to pay a certain sum stated in the policy at the death of the policy-holder, or at a certain time which may or may not occasion a pecuniary loss. The policy-holder may be insane or totally incapacitated from all labor and usefulness, but this makes no difference, the money-value of the life is stated and *agreed upon* in the policy, and the company is bound for the whole amount. If any other rule were adopted, if the friends of the policy-holder were to receive only the sum which would compensate for the pecuniary loss they sustained, poli-

cies would seldom be kept in force after the productiveness of the insured began to decline.

Payment of Premium.

It may be said that it is a fundamental principle in life insurance that the premium must be paid in advance, or the policy will lapse unless the payment is waived or deferred. The reason of this is very clearly stated in the following extract from a judicial decision :

A policy of insurance is in one sense a one-sided contract. The payment of an annual premium insures the life for a year. At the end of the year the company is bound to receive the premium if tendered ; the insured is not bound to pay it. To continue the agreement from year to year is at the option of the insured. The premiums are the fund relied upon for the losses incurred. If the insured ceases to contribute to the fund, it must be presumed that he will not claim its benefit. The company must know at the stipulated day whether the agreement is to continue. The payment of the premium advises them. If not paid at the time, of necessity the company must conclude it never will be paid. They dare not calculate on probabilities. No life insurance company can do business for a single year on any other principle. To attempt it must be to forfeit the confidence of the people. The insurance is accepted on these terms. They form a part of the written contract upon which the claim for the benefit of it is based. Clearly, the object of the provision is not merely to secure the payment of premium. It may prevent the payment of premium when overdue, otherwise those interested might claim the sum insured, though the insured had died with his premium unpaid. *The prompt and punctual payment of the premium is the very substance of the contract.*—*2 Bigelow, Life and Acc. Rep.*, 150.

No excuse or accident will be allowed to set aside this rule unless there is a stipulation in the policy, or unless there is a subsequent agreement to this effect. A policy-holder going to the office of the company to pay his premium on the last day that it was due, was stricken down by paralysis and died the next day without having paid it. Meanwhile the company declared the policy to be forfeited, and the court held that it would not have been held liable for the claim, unless there had been a special stipulation to waive the payment a short time in case he was not able to pay it when due.

A premium received by a company after the death of the insured and after the time of payment has expired, the company being ignorant of the death of the policy-holder, will not revive a policy. The premium is for the future insurance of the policy-holder while living, and after he dies it is too late to correct mistakes.

Where a note was given for half a premium on a pol-

icy where the premium was payable strictly in advance, and the note was not paid at maturity, it was held that the company was not liable when the insured died after the note became due.

When a premium is payable by quarterly installments, the non-payment of one of the installments on the day it is due will cause the forfeiture of the policy.

When the premium is paid subsequently to the date and issuance of the policy, the policy takes effect by relation from the time when the contract was made, though it is provided that the policy shall not be binding till the premium is paid.

The premium must be paid when it is due, and to some one authorized to receive it, otherwise the policy may be forfeited ; but if the premium is tendered to an authorized agent of the company before it is due, and he refuse to receive it, the policy will be binding although it is not paid.

Delivery of Policy.

A delivery of the policy as well as the payment of the first premium is necessary in order to make it binding on the company. Where the terms of a policy required the first premium to be paid in cash as a condition precedent, and the applicant gave his note as payment of the cash premium till the policy should arrive, and the party fell sick and died, so that the policy was not delivered, it was held that the policy was not binding because one of the conditions was not fulfilled ; that the applicant would pay the premium when the policy arrived and was delivered, and that till this payment and delivery, the policy was merely an escrow or unfinished contract in the hands of the agent.

Warranty and Representation.

In order to form a contract of insurance intelligently, it is necessary for the company to have definite knowledge of the physical condition of the person to be insured. The applicant for insurance makes certain statements respecting his health, physical condition, and former manner of life, and upon these statements the company decides whether to accept or to reject the application. These statements must be true, or else a fraud is committed, and the law decides that the person insured *warrants* them to be so. "A warranty in a policy of insurance is a condition or contingency, and unless it be performed, there is no contract. It is

styled a condition precedent, which means that it is perfectly immaterial for what purpose a warranty is introduced, and that no contract exists unless the warranty be literally complied with."

A representation is a "verbal statement made by the assured to the company before the subscription to the policy as to the existence of some fact or state of facts tending to induce the company more readily to insure the risk, by diminishing the estimate it would otherwise have formed of it." It belongs to some matter extrinsic to the contract, and generally, if not always, relates to the present condition of the subject insured.

Concealment or misrepresentation. The rule of law is that the insured, as well as the agent whom he employs to effect the insurance, should give an unreserved and full statement of all the material facts, whether he is required by the company to give it or not, unless it expressly dispenses with it. The law considers the undertaking of insurance to be a contract upon speculation, or without any definite knowledge of the results, and in order to form a proper estimate of the risk insured, and to compute accurately the compensation which ought to be paid, a knowledge of all important points is most essential to the company.

These facts are almost invariably within the knowledge of the insured, and a communication of them is most justly and wisely imposed as a positive duty on him by the law. He is required to act in the purest good faith, and his omission to mention any material fact which might influence the company in estimating the premium or accepting the insurance, although it may have arisen from mistake or heedlessness, or from a *bona-fide* belief that it was quite irrelevant, will be fatal.*

Thus if a party asking to be insured is in the habit of eating opium, the fact should be stated by him even though not specially asked by the company.

Every agent and applicant should clearly understand that in case of concealment or misrepresentation, as in case of warranty, the question of materiality is not regulated by the event, and that although death may arise from causes totally unconnected with the circumstances which have been omitted to be mentioned, or have been misrepresented, the contract will equally be vitiated.†

But later authorities do not appear to be quite as strict, in that they require the misrepresentation to be

* Angell on Fire and Life Insurance, § 307.

† Ibid., § 321.

material to the risk, while in warranty it is not so. Mr. Justice Wells of Massachusetts says :

"Representations to insurers, before and at the time of making a contract, are a presentation of the elements upon which to estimate the risk proposed to be assured. If wrongly presented *in any respect material to the risk*, the policy that may be insured upon will not take effect."

And another authority holds that "fraud is an element which vitiates every contract, and a want of truth in a representation is fatal or not to the insurance, as it happens to be material or not material to the risk undertaken; but when a thing is *warranted* to be of a particular nature or description, it must be exactly as represented, otherwise the policy is void and there is no contract ; and this may be considered as a first principle in the law of insurance."

But the mere omission of the insured to state matter not called for by *any specific or general question*, would not be a concealment and would not vitiate the policy. The presumption is that the company questions the party upon all subjects which it deems material, and beyond that the party is not bound to disclose.

Insurable Interest.

The party for whose benefit a policy is written must have an interest in the life of the insured, that is, it must be shown that the death of the latter will be a damage, either pecuniary or otherwise, to the former. This is termed "insurable interest," and it is necessary in order to hold the company liable. If this is wholly wanting, as where a man pays the premiums on the life of another who does not owe him anything and is not related to him, the contract of insurance is a wagering policy, a mere bet that he will die, and moreover, it is for the interest of the party paying the premiums that he should die, and instances have occurred in which means have been taken to hasten this event when lives were insured with wagering policies. By the laws of England and several of the States of the Union such policies are void.

This insurable interest may or may not be a pecuniary one. It is a sufficient basis for a contract of life insurance if in the ordinary course of events loss and disadvantage will probably arise to the party in whose favor the policy is written, from the death of the party insured ; and the amount of loss and disadvantage is held in law to be the sum insured. A *bona-fide* cred-

itor has an insurable interest in his debtor's life to the amount of his debt, for that is a probability more or less remote that the debtor would pay the debt if he lived. When a member of a firm promises to contribute his labor and skill in an enterprise or business operation, the other partners who furnish the capital have an insurable interest in his life, because if he should die, the business would suffer. A newspaper firm in New York held some very large policies on the life of its principal editor, and a prominent church in Brooklyn has insured the life of its pastor for the benefit of the society for a large amount. If a sister without property of her own, or means of support, depends upon her brother for a living, this dependence on him is sufficient to constitute an insurable interest. A wife always has an insurable interest in the life of her husband, and may recover thereupon without other proof than that of the relation between them. She has a clear legal right to support and maintenance so long as she may live. So a father who is entitled to the earnings of his minor son has an insurable interest in his life. On this point Chief Justice Shaw of Massachusetts says :

" We cannot doubt that a parent has an interest in the life of a child, and *vice versa* a child in the life of a parent, not merely on the ground of a provision of law, that parents and grandparents, children and grandchildren, are bound to support their lineal kindred when they may stand in need of relief, but upon considerations of strong morals, and the force of natural affection between near kindred, operating often more efficaciously than those of positive law."

" Whatever may be the nature of such interest, and whatever the amount insured, it can work no injury to the insurers, (the company,) because the premium is proportioned to the amount, and whether the insurance be to a large or a small amount, the premium is computed to be a precise equivalent for the risk taken. Perhaps it would be difficult to lay down any general rule as to the nature and amount of interest the assured must have. One thing must be taken as settled, that every man has an interest in his own life to any amount in which he chooses to value it, and may insure it accordingly."

If a wife has a policy on the life of her husband, the fact that they subsequently divorced will not invalidate the policy. If there was an insurable interest at the time that the insurance was effected, the fact that it has ceased will not relieve the company from liability.

Waiver. Although the companies make certain con-

ditions in their policies, and insert a clause that the policy will be forfeited if these conditions are not complied with, yet the company may waive any of these conditions when violated either directly by granting permission, or constructively by some act which the law will consider a waiver. A forfeiture for the non-payment of premium when due, is waived by the subsequent receipt of the premium without objection. If an agent delivers a policy without countersigning it, the company will be held responsible if the policy-holder dies, and the law will regard this requirement as being waived. The same is true respecting any other conditions of the policy, but the waiver must be clearly established by some act of the company or its agent, for it will not be implied. The law prefers to maintain the contract as originally written rather than to make a new one by the act of either party. Whether the acts were done which constitute waiver, are questions of fact for the jury to decide, but the sufficiency of these facts, or what amounts to waiver, are questions of law.

If the agent waives the cash payment on a premium, and takes the individual note of the policy-holder in payment, although he does not deliver the policy, the insurance is complete, and the amount of the policy can be recovered the same as if the premium was paid in cash, and the policy delivered. But the note must be taken as payment, and not merely as a memorandum that the cash will be paid when the policy is delivered.

Assignment.

A life insurance policy may be assigned like any other contract unless there is some stipulation in it, or some special statute law which prevents its being disposed of in this way. A person may make an assignment by a mere deposit of the policy, by an indorsement on it, or by a separate deed of assignment. But to constitute a valid assignment by indorsement upon a policy, there must be a delivery of the instrument.

When a policy is assigned, notice should be immediately given to the company, in order to prevent the assignees in bankruptcy or insolvency from acquiring rights which would impair or destroy the title of the assignee, and any third party taking a subsequent assignment should give the earliest notice to the insurers, and not having notice of the prior transfer, would acquire a superior title. No special form of notice to the company is necessary; it is sufficient if the information is conveyed to it in a clear and unmistakable manner.

When a policy is assigned to a purchaser for a consideration, he is entitled to the whole amount of the policy, and it is not material whether he paid a full consideration upon such transfer or not. Such liability in no manner depends upon the amount of consideration of the assignments.

In a leading English case it was held that the law prohibiting insurance by persons having no interest in the life insured, had no application to the assignment of a subsisting policy, but that the assignee in good faith of a policy upon life, which was good when effected, is entitled in all cases to demand payment of the whole sum insured.

The claim of the assignee when the insured person dies is good against all other creditors. On this point Mr. Justice McKinney of Tennessee says : "Upon the death of the assured all contingency is at an end, and the payment of the money becomes an absolute unconditional obligation on the part of the insurer, and the policy becomes invested with all the essential properties of a promissory note on the legal evidence of death. And if we are right in assuming, as we have, that the legal effect of the assignment of the policy was to invest the assignee with the legal interest in the policy, then the conclusion is demonstrated that he alone, as against the personal representative, creditors, and all other persons, is entitled to receive the money due on the policy. In this view the assignee of the policy stands upon the same footing as the assignee of a bond, bill or note, and like them it may be assigned without the knowledge and against the will of the debtor."

Where the company requires notice of an assignment to be given to it, the assignment is valid if notice is not given until after the death of the assured.

When a policy on the life of the husband is the sole and separate property of the wife, it is assignable by her in equity, the same as any other personal property. 40 Ill., 398. This is the case in the absence of any special statute to the contrary, but in New York such assignments are invalid. Such a policy is an exception to the general rule, and is strictly regulated by local statute laws:

Prospectus.

A prospectus, advertisement or leaflet setting forth the condition of the company, the terms of insurance or advantages, forms no part of the policy and is not binding upon the company. Such preliminary matter is

never admitted where the terms of the contract are clear and explicit. On this point Judge Selden of New York holds that "there is not the slightest authority for holding that any preliminary or collateral writing whatever, *which is neither annexed to nor referred to in the policy,* can be taken as a part of the contract of insurance, and the general principles of law are opposed to any such doctrine."

The policy and the application must be considered as the entire contract between the two parties, and all other statements used in persuading the insured to take a policy, as well as the language and conversation of the agent, is mere preliminary matter, which is not binding unless actually incorporated in the policy.

Policy-holder not heard from.

When a person insured has not been heard from for some time, the question arises whether he is alive or dead, and whether the company is liable for the amount of the policy without any further proof of his death. This is a question of fact which must be determined by the jury. All authorities agree that the common law is that the presumption of life with regard to persons of whom no account can be given, ends at the expiration of seven years from the time they were last known to be living, and that after this period the burden of proof devolves upon the company insuring him. The circumstances upon which the jury are to find the verdict are the age of the party, his situation, habits, employment, state of health, physical constitution, the place or climate of the country, whether he went by sea or by land, the facility of communication between that country and his former home; in short, any circumstances tending to aid in finding the fact of life or death. There must also be evidence that diligent inquiry has been made among his relatives, or at the place of his foreign residence, if known, to ascertain if he is living.

The statutes of New York and Pennsylvania adopt the English rule, that when a person has been absent from home for seven years, without being heard of, and diligent inquiries have been made at his last known place of residence, without success, he shall be considered as dead.

Violation of Conditions.

When a policy contains certain conditions, the violation or non-performance of any of them will vitiate it.

A person who had special permission to make a voyage to California and return by way of Cape Horn or Vera Cruz, was said to have vitiated the policy because he returned by way of Chagres, although he arrived here safe and sound. The policy fixed the condition upon which it should be binding and upon which it should be annulled, and there having been a breach in the condition, it was thereby rendered void. So when the Protestant Episcopal bishop of Rhode Island went into a Southern State, and remained ten days when the conditions of his policy only allowed him to remain five, it was held that the policy was forfeited.

If a person having an insurance on his life commit a felony for which he is tried, convicted and executed, the policy is rendered void, although it contain no condition to this effect. It has been held that to pay a claim of this kind would be contrary to public policy and sound morals.

Since the courts and public opinion hold the companies strictly responsible to pay every just claim, no matter how much greater it may be than the premiums it has received, it is only just and equitable that the policy-holder should be held to as strict an account for his conduct while he is insured. He holds possession of the policy, its contents can be read at any time, and there is no excuse for his violating them.

Rights of Married Women.

Under the statutes of New York, Massachusetts, Connecticut and some other States, a policy of insurance made on the life of the husband for the benefit of the wife and her children in case of her death, cannot be assigned or transferred, so as to defeat their interest in it. The statutes evidently intend that provision should be made for her and her children in a state of widowhood and orphanage, should such a condition occur, since this was the evident object of the husband when he took the policy.

At common law a man could insure his life to any amount which the company was willing to take and and for which he would pay the annual premium, but subsequent statutes have been enacted that if one wished to insure the life of another, he could only insure to the interest he had in such other life. This principle the legislatures have relaxed in respect to insurance effected by a married woman on the life of her husband for any sum which she and the insurance company see fit to contract for. It is also provided

that in case of her surviving her husband, the amount payable in the terms of the policy should be payable to her, for her own use, free from all claims of the representatives of her husband or his creditors. In some States this is limited to the case where the annual premium is not over \$300. In these acts the contract is continued to the children of the assured wife after her death. This provision is a special and a peculiar one, and looks to a state of widowhood and for the orphan children, and it would be a violation of the spirit of the provision, to hold that a wife insured under this act could sell or traffic with her policy as though it was realized personal property or an ordinary security for money.

In such a policy the intention is not to give a sum of money to the children after the wife dies, but to make a life policy, in a certain event, payable to them, and the intention is not only expressed but executed. This is evidently the intention of the statute law, and it is against public policy to allow its provisions to be defeated by any assignments or transfers to other parties. A life policy made in this manner is not testamentary in its nature and therefore revocable. It is not a will, but a contract in behalf of the wife and children, authorized and regulated by statute, and when once entered into, is no more revocable than a promissory note would be which was made payable to the children after the death of the mother.

This provision or intention of the law is sometimes defeated by an understanding with the company, that the time for the payment of premium shall expire, and after the policy has been forfeited to have the company revive it or issue a new policy on its original terms as to date and amount, and made payable to other parties. How far this practice is allowable we cannot say, as the question has not been tested in the courts. But the wife or children can prevent this by paying or tendering the payment of premium before the time it is due.

Suicide.

Hardly any subject has occasioned more litigation or been more frequently contested than the question whether suicide or self-destruction will avoid the payment of the sum insured. Nearly every company has a special clause in its policies that it will not be liable "if the insured die by his own hand," but when the cases come before the courts and jury, the companies find decision after decision rendered against them.

Suicide is thus defined by Blackstone: "A *felo de se* is he that deliberately puts an end to his existence, or commits any unlawful, malicious act, the consequence of which is his own death. The party must be of years of discretion and in his senses, or else it is no crime. But this excuse ought not to be strained to that length that the very act of suicide is an evidence of insanity, as if every man who acts contrary to reason has no reason at all, for the same argument would prove every other criminal *non compos* as well as the self-murderer. The law very rationally judges that every melancholy or hypochondriac fit does not deprive a man of the capacity of discerning right from wrong. If a real lunatic kills himself in a lucid interval, he is a *felo de se* as much as another man."

According to this definition, insanity at the time of self-destruction must be clearly proved and will not be presumed. If a man clearly understands the nature of his act and intends to take his life, the policy will be avoided, but if he is insane, and incapable of discerning between right and wrong, then the company will be liable to pay the amount of the policy.

It has been decided that "it never has been anticipated by any law-writer known to us that the mere transports of passion at the time the fatal deed is done, where the mind remains unimpaired in the exercise of its intellectual faculties, however violent and overwhelming, shall exonerate even from criminal responsibility, much less to avoid civil contracts. The sanity of the suicide, like that of the homicide, is legally presumed, and the evidence of insanity must be sufficiently patent to overcome both this legal presumption and the evidence of sanity, to establish to the satisfaction of the jury insanity.—6 *Bush.*, 268, *Kentucky*.

In another case it was decided that "there is no presumption in law, *prima facie* or otherwise, that self-destruction arises from insanity, and if, when a person is excited or angry, he takes his own life, because in the exercise of his reasoning faculties he preferred death to life, then the company is not liable, as he died by his own hand.—1 *Dillon*, *Kansas*.

Chief Justice Bigelow, in a leading discussion on this subject, decides that "the facts agreed by the parties concerning the mode by which the plaintiff's intestate took his own life, (cutting his throat with a razor,) leave no room for doubt that self-destruction was intended by him, he having sufficient capacity at the time to understand the nature of the act he was about to commit, and the consequences which would result from

it. Such being the fact, it is wholly immaterial to the present case that he was impelled thereto by insanity, which impaired his sense of moral responsibility and rendered him to a certain extent irresponsible for his actions."—*4 Allen, 96 Mass.*

But on the other hand, the authorities are very clear that where the insured is insane at the time the act is committed, self-destruction will not avoid the policy as policies are usually written. The words of the proviso, as "suicide," "dying by one's own hand," "are the words not of the assured, but of the assurers, introduced by themselves for the purpose of their own exemption and protection from liability; both in reason and good sense, therefore, no less than upon acknowledged principles of legal construction, they are to be taken most strongly against those that speak the words, and most favorably for the other party." If the company intended that the policy should be voidable in case of self-destruction while temporarily insane or under a fit of delirium, while the policy-holder was unable to distinguish right from wrong, or know the consequences of his act, the law presumes that the company would have so expressed it in the policy. It is as easy to make an exception of this nature as it is against death in a tropical country where the policy-holder is forbidden to travel by the terms of the policy, or while engaged in mining or ascending in a balloon. The most recent scientific investigations disclose the fact that insanity is a disease of the brain. Microscopic examinations of the brains of healthy and insane persons show a considerable difference in their cellular structure, and the question whether a person was really insane or not when he committed self-destruction may yet be solved by the microscope.

It follows, therefore, that the companies, as their policies are usually written, are liable for the amount of the policy when the insured, in a fit of insanity, kills himself. On this point Chief Justice Nelson says: "Speaking legally, self-destruction by a fellow being bereft of reason can with no more propriety be ascribed to the act of his own hand than to the deadly instrument that may have been used for the purpose."

"Suicide involves the deliberate termination of one's existence while in the possession and enjoyment of his mental faculties. Self-slaughter by an insane man or a lunatic is not an act of suicide within the meaning of the law."—*4 Hill, N. Y. Rep., 73.*

The policies of some companies are so worded as to exclude the payment of claims when the insured dies

by self-destruction, whether "sane or insane," and it has recently been decided in the Supreme Court of Wisconsin, by Mr. Chief Justice Dixon, in a case where these words were used in the policy, that the parties agreed upon the definition and limitation of the word "suicide" by the conditions of the policy, and therefore must be bound by that definition. Hence the policy was null and void by violation of its conditions.*

Suicide cases are attracting more attention now than formerly. Cases have occurred where men have made careful inquiries as to what companies pay suicide claims, and after insuring in them to a large amount, they put an end to their own lives, relying on the companies and the courts to give their families the amount insured. But the payment of a claim where the policy-holder committed suicide willfully and knowingly, is clearly against good morals and public policy, and ought to be prohibited by statute law.

* *Insurance Law Journal*, vol. iii., p. 422.

THE END.





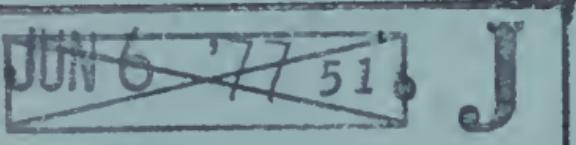
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